FINANCIAL TIMES

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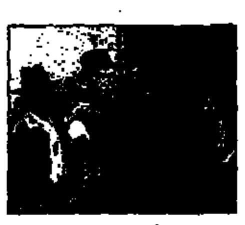
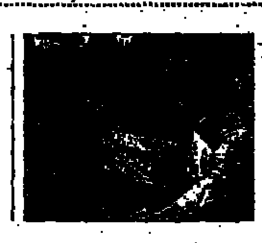
WEDNESDAY AUGUST 26 1998

Cybersex industry
Hot profits and hardcore crime
E-commerce, Page 16



Global economy
Already a crisis – could be a catastrophe
Martin Wolf, Page 9



South Korea
Time to give workers an ownership share
Personal View, Page 8

Japan's retailers
Selling off to survive
Page 13

WORLD NEWS

Insurers agree deal to settle Holocaust victims' claims

Five of Europe's biggest insurers have agreed on a deal to settle with Holocaust victims and their relatives. Under the deal struck with US state regulators yesterday, Allianz of Germany, Axa of France, and Zurich, Basler Leben and Winterthur of Switzerland would let an international commission determine how much they owe in unpaid insurance benefits. Page 10

Serbs defy UN over Kosovo
Serbia ignored United Nations calls for a Kosovo ceasefire and shelled ethnic Albanian villages in the province for the third day running. Yugoslav president Slobodan Milosevic seems determined to destroy the separatists and their supporters before he negotiates seriously. Page 2

Nigerian poll date set
Nigeria's electoral commission announced February 27, 1999 as the date for presidential elections. Military ruler Gen Abdulsalam Abubakar has promised to give up power on May 29. Page 4

Jets bomb Congo rebels
Angola and Zimbabwe stepped up their military intervention in Democratic Republic of Congo's war, bombing rebel positions in central and south-west Congo. Page 4

Sierra Leone death sentences
Death sentences were pronounced in Sierra Leone on all 16 people convicted of involvement in a May 1997 coup. They had been found guilty of collaborating with the army junta that ousted President Ahmad Tejan Kabbah for 10 months.

Taliban tighten grip on Afghanistan
Afghanistan's Taliban militia said it planned an offensive on central Bamiyan province, one of their opponents' last big strongholds.

More Israeli settlements planned
Israeli prime minister Benjamin Netanyahu announced new settlement plans for Hebron despite rising hopes for a deal on an Israeli redeployment from part of the West Bank. Page 4

Presidential visit delayed
Chinese president Jiang Zemin postponed his visit to Japan next month, officially because of China's severe floods. Foreign diplomats said another reason was differences about what should be agreed at the summit. Page 5

Indian floods affect 4m
Efforts intensified to help tens of thousands of people marooned by flooding in northern India. An Uttar Pradesh official said 700,000 in the state were cut off by floods which had affected more than 4m people.

No Disney for Dubai
Disney characters Goofy, Mickey Mouse and Minnie have cancelled a trip to the Gulf emirate of Dubai this month because of security fears after the US missile attack on Sudan.

Drug delivery
UK company Weston Medical said it had developed a needle-free injection device that delivers drugs with minimal pain. It uses a small pressurised canister to force liquid medication into a tiny jet which pierces the skin.

Libya to respond on Lockerbie trial
Libya was expected to respond today to a plan for a Netherlands trial for two Libyans accused of the 1988 Lockerbie airliner bombing which killed 270 people.

BUSINESS NEWS

Sun's Java software favoured for digital television in Europe

Leading European broadcasters chose Java, software licensed by US computer company Sun Microsystems, as the likely operating software for the next generation of digital television. The decision is a setback for rival Microsoft. Page 19

Lockheed Martin, the world's leading defence contractor, joined forces with Mitsubishi Electric, Japan's biggest military electronics maker, in what may signal further moves into overseas alliances by the US group. Page 11

AMP, Australia's largest life insurer and funds manager, launched the country's biggest takeover bid with a A$3.01bn (US$1.7bn) offer for general insurer GIO. Page 11; AMP continues M&A wave, Page 13

UBS, Europe's biggest bank, increased its first half net income before special factors by 5 per cent to SFr3bn ($1.9bn), helped by buoyant financial markets. Page 11; Lex, Page 10

Philips, Dutch electronics group, warned of an unexpected loss at its troubled telephony joint venture with Lucent Technologies. Page 11

Vedior, Dutch temporary employment and cleaning agency, posted a 21 per cent rise in first-half net profits to Fl 93m ($46m) in spite of price pressures. Page 12

British Aerospace may close the ammunition businesses of Royal Ordnance, its munitions subsidiary, because of falling orders and growing price competition from outside the UK. Page 6

Aggreko, international power hire company, met its self-imposed 10 per cent growth target for operating profits in its first interim results since demerging from Christian Salvesen. Page 14

Marsh & McLennan, the world's biggest insurance broking group, acquired UK-based rival Sedgwick for £1.25bn ($2.06bn). Page 11; Comment, Page 14; Background, Page 15

Axel Springer, German publishing group, forecast improved earnings for 1998 on the back of a strong performance in the first half. Page 13

Jenoptik, east German technology group, shrugged off the global collapse in semiconductor prices with a 45.6 per cent rise in first-half sales to DM1bn ($500m). Page 13

FöreningsSparbanken, one of Sweden's largest commercial lenders, saw first-half operating profits rise to SKr4.34bn ($527m) from SKr3.75bn. Page 13

Matsushita, Japanese electronics group, said tough conditions in the domestic market contributed to a 58 per cent decline in first quarter earnings to Y11.1bn ($77.1m). Page 13

Toyo Trust, one of Japan's largest banks, announced strategic alliances with asset management companies in the US and the UK. Page 13

Euro Prices

A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets.
Page 17

Rouble drops 9% on economy fears

Chernomyrdin tries to form government amid claim banking elite engineered sackings

By John Thornhill and Chrystia Freeland in Moscow

The Russian rouble lost 9 per cent of its value yesterday as fears spread that the country's economy was slipping out of control and Victor Chernomyrdin, acting prime minister, struggled to form a new government.

The scope of the changes in Russia's financial sector was underlined by the proposed merger of three of the country's biggest banks.

The moves came as Boris Nemtsov, a former deputy prime minister who has refused to join Mr Chernomyrdin's government, warned that Russia's powerful banking and corporate elite, known as "oligarchs", had engineered the removal of Sergei Kiriyenko as prime minister on Sunday and were intent on dictating government policy.

Mr Nemtsov said the oligarchs had persuaded Boris Yeltsin, president, to sack the government when it became clear it was going to bankrupt some of their banks and companies on Monday morning and allow foreign creditors to seize their assets. "No acting elite, naturally, wants to be changed and so they decided to change the government."

The rouble fell yesterday from 7.14 to the US dollar to 7.88 as Russian banks rushed to buy foreign currency. The rouble stood at 6.28 to the dollar at the beginning of the month.

Late last night Mr Yeltsin signed a decree approving the government's long-awaited plan to restructure the $40bn treasury bill (GKO) market. The government froze the GKO market last week and said it would have to extend forcibly the period over which it paid back this debt.

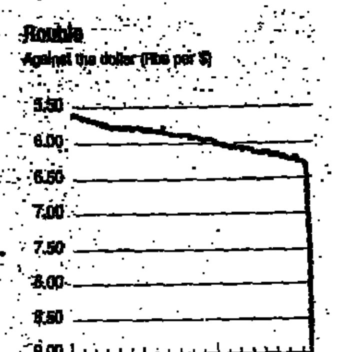
Mr Chernomyrdin held talks with parliamentary leaders in an attempt to form a coalition government, which could tackle Russia's deepening economic problems. His supporters suggested he may offer cabinet posts to at least three Communist party members to try to win over the biggest parliamentary party.

As prime minister for more than five years, Mr Chernomyrdin earned a reputation as a proponent of gradual change. He promised to modify the previous government's course and said he would pay off all outstanding pensions and salaries and introduce an industrial policy "since purely monetary means did not pull Russia out of crisis".

He also said if the confirmation process for his new government were to drag on, Russia's problems would get worse.

However, Mr Kiriyenko warned that a coalition government would be unable to cope with Russia's financial crisis. "It is today possible to create a government based on a majority in the Duma but, regrettably, it could not work effectively," he said.

The country's financial crisis is resulting in some radical restructuring in the banking sector with three politically well-connected banks – Oneximbank, Most, and Menatep – saying they were going to merge their operations. The central bank is trying to manage the tricky task of stabilising the troubled banking sector and securing household deposits, while allowing failed banks to go bust.



Already some leading bankers are suggesting there is no alternative to printing money to ease the government's financial plight. According to the Interfax newsagency, Pyotr Aven, president of Alfa Bank, one of Russia's biggest commercial banks, said an increase in the money supply was "inevitable" because the government could no longer finance itself through the domestic debt market. But he said the central bank should restrict inflation to a reasonable rate of between 15 per cent to 20 per cent a year.

Russian crisis, Page 2
Editorial Comment, Page 9
Threats of depression, Page 9

Top Russian banks agree merger plan as crisis bites

By Charles Clover in Moscow

Three of Russia's largest banks yesterday agreed to merge, in a bid to withstand the pressures stemming from the country's deepening financial crisis.

The move is the latest in a wave of consolidation taking place in the banking sector, with two other banks joining forces on Monday.

Oneximbank, the fourth largest bank in Russia, Menatep, the seventh largest, and Most Bank, the seventeenth largest, said they would each place 51 per cent of their shares into a separate holding company by January 1 1999. Each will hold 33.33 per cent stakes in the holding company.

Representatives from the banks said Russia's financial crisis was behind the decision to merge.

"The crisis was the catalyst for the merger," said Sergei Chernitsev, a spokesman for Oneximbank.

The Russian banking sector is on the verge of collapse after a series of crisis measures were implemented by the Russian government last week to avert a liquidity squeeze.

This has had the effect of freezing all the short-term liquidity of the banks.

As a result of the crisis, Menatep has not been able to pay many of its depositors. It became the first Russian bank to default last week as the result of a 90-day moratorium imposed by the government on repaying foreign commercial loans.

On Monday, National Reserve Bank announced a merger with Inkombank, which analysts said has losses equal to four times its capital of 2.4bn roubles ($300m). However, NRB officials said yesterday that the merger was "just at the stage of talks".

The merger of Oneximbank, Most bank, and Menatep will add another layer to the already Byzantine ownership structure of Russia's banks.

Oneximbank is part of the Interros group controlled by Vladimir Potanin, one of the most powerful of Russia's banking and corporate elite, known as "oligarchs", while Menatep is part of the Rosprom group controlled by Mikhail Khodorkovsky. Most Bank is part of the Most media and banking empire run by Vladimir Gussinsky.

The chief executive of the new holding company formed by Oneximbank, Menatep, and Most Bank, will be Mikhail Prokhorov, of Oneximbank. The chairman of the board will be named by Menatep and Most Bank, while each bank will contribute three board members.

The three said in a statement that their merger "will be carried out in line with international standards and will create an institution which will be run in accordance with international standards of accounting and auditing".

Konstantin Kagalovsky, first vice-chairman of Menatep, contested the view of some analysts that Oneximbank would be the dominant partner at the new bank: "Out of three banks, there will be one. It will be an equal partnership of all three members," he said.

One banking analyst claimed the idea behind the merger was to create a bank that was "too big to fail" and thus more eligible for a bail-out by the central bank.

Mr Kagalovsky disagreed: "The idea is that we will create a real western-style bank," he said.

As of July 1, Oneximbank, Menatep, and Most Bank combined had assets of 67bn roubles ($8.3bn) and capital of 9.5bn roubles ($1.2bn) – of which Oneximbank accounted for 5.1bn roubles. There is no official information on their losses.

Tony Blair, UK prime minister, with Northern Ireland secretary Mo Mowlam, talking yesterday at the scene of last week's bomb blast in Omagh. Mr Blair is bringing MPs back from their holidays early to pass legislation to crack down on terrorism. Report, Page 6; Editorial Comment, Page 9. Picture: PA

Japan may open up short-term securities

By Gillian Tett in Tokyo

The Japanese government plans to liberalise an important part of the country's short-term government securities market, with the aim of making it more transparent and attractive to foreign investors.

The main element of the reform, which is likely to be implemented next spring, would be the introduction of open, competitive auctions for two-month government securities known as financing bills. These are used by the ministry of finance to raise funds for foreign exchange market intervention or to plug temporary budget gaps.

The plan constitutes a partial response to demands from foreign financial officials, especially Robert Rubin, US secretary of the treasury, that Japan bring greater transparency to its capital markets.

The reform of the Y30,000bn ($206.6bn) market has long been a controversial issue in Japan. The short-term government securities market is strikingly different from that in other large countries, such as the US. At present, the ministry of finance issues two forms of short-term securities to raise funds: three-month treasury bills and two-month FBs.

The Y13,000bn treasury bill market is already liberalised, with prices set through competitive auctions twice a week and non-Japanese holding about 65 per cent of all bills. However, the FB interest rate is set at 0.125 percentage points below the official discount rate – currently 0.5 per cent – effectively driving away private buyers. The Bank of Japan is compelled by law to purchase any unsold FBs, and almost all the bills are now held by the central bank.

The bank has long campaigned to change this system.

The reform could lead to a change in the finance ministry's procedure for raising funds for intervention in the foreign exchange markets. In the past, it has issued up to Y20,000bn of bills in the FB market for this purpose. The introduction of open, competitive auctions would make it more difficult for the ministry to conceal its intentions.

The ministry said no official decision on FB reform has been taken. However, it has recently agreed in principle with the Bank of Japan to start competitive auctions and the ministry's international finance bureau is drawing up schemes to implement the reform, probably next April.

The bank expects FB interest rates under the competitive auction system to rise at least to official discount rate. Although that may be too low to attract many private foreign investors, it is likely to pull foreign central banks into the market, particularly from the Asian region, the bank said.

Parties oppose bank reform, Page 5

WORLD MARKETS

STOCK MARKET INDICES			GOLD		
New York: Lunchtime			New York: Comex		
Dow Jones Ind Av	8665.47	(+98.96)	Aug	$283.3	(285.0)
NASDAQ Composite	1813.10	(+22.78)	London:		
Europe and Far East				$283.15	(285.25)
CAC40	4025.32	(+91.83)	EXCHANGE RATES		
DAX	5371.76	(+136.58)	Dollar		
FTSE 100	5654.4	(+100.7)	New York: Lunchtime		
Nikkei	15,072.93	(+84.57)	£	1.6373	
US Lunchtime RATES			DM	1.79845	
Federal Funds	5.44%		FFr	6.0295	
3-mth Treas Bills: Yld	5.094%		SFr	1.5040	
Long Bond	100[illegible]		Y	144.75	
Yield	5.464%		London:		
OTHER RATES			£	1.6385	(1.6395)
UK: 3-mo Interbank	7[illegible]%	(same)	DM	1.7993	(1.7984)
UK: 10 yr Gilt	113.00	(113.020)	FFr	6.0313	(6.0213)
France: 10 yr OAT	107.30	(107.40)	SFr	1.5040	(1.5008)
Germany: 10 yr Bond	108.23	(108.34)	Y	144.73	(143.82)
Japan: 10 yr JGB	112.23	(same)	Tokyo Close		Y 143.55
NORTH SEA OIL (Argus)			Sterling		
Brent Dated	$12.60	(12.295)	DM	2.9481	(2.9451)

Bahrain	Din1.300	Belgium	BFr60	Cyprus	C£1.35
Denmark	DKr21.00	Estonia	[illegible]	Finland	[illegible]
France	FFr12.50	Gibraltar	£0.75	Greece	Dr450
Hungary	Ft300	Iceland	[illegible]	Italy	L3400
Jordan	JD1.75	Korea	[illegible]	Latvia	[illegible]
Lithuania	[illegible]	Luxembourg	LFr60	Malta	[illegible]
Netherlands	Fl5.00	Nigeria	[illegible]	Norway	NKr21.00
Oman	[illegible]	Poland	[illegible]	Portugal(Mainland)	[illegible]
Qatar	QR13.00	S.Arabia	[illegible]	S.Africa	[illegible]
Spain	[illegible]	Sweden	SKr22.00	Syria	[illegible]
Switzerland	[illegible]	Turkey	[illegible]	UAE	[illegible]

CONTENTS

Full contents and Lex: back page

WORLD NEWS

EUROPE

RUSSIAN CRISIS BUSINESSMEN PROVOKED CHANGE OF GOVERNMENT TO PREVENT STRUCTURAL REFORMS, CLAIMS FORMER DEPUTY PM

Oligarchs urged sackings, says Nemtsov

By Chrystia Freeland and John Thornhill in Moscow

A cabal of Russian corporate magnates provoked the change of the Russian government at the weekend to prevent it from pushing ahead with radical structural reforms, Boris Nemtsov, *the former deputy* prime minister, claimed yesterday.

Mr Nemtsov, a progressive young provincial governor brought into the cabinet last year to speed the reform process, said a tough reform package was to have been implemented on Monday.

The programme included measures western leaders have been urging Moscow to impose, including bankrupting some politically powerful but economically weak banks and oil companies. Stronger companies, including western creditors, would have been invited to take over the ailing institutions.

But Mr Nemtsov alleged that Russia's leading businessmen, known as the "oligarchs," learned of the cabinet's plans.

Led by Boris Berezovsky, an influential financier-turned-politician, the oligarchs acted swiftly to stop the restructuring programme – which could have led to the bankrupting of their corporate empires – by persuading the president to sack the government.

"The point is that this week we had planned to put a number of banks under government administration ... and to begin bankruptcy procedures against major companies, including oil companies," Mr Nemtsov, who resigned on Monday, said in an interview with the FT yesterday.

"They [the oligarchs] understood that the end was near, that there might be serious changes in ownership and that the current oligarchate might come to an end.

"Moreover, this fresh wind of bankruptcy ... could lead to a displacement of the current elite. Naturally, no acting elite wants to be replaced and so they decided to replace the government."

Mr Nemtsov said the move to dismiss the government was spearheaded by Mr Berezovsky, a businessman serving as secretary of the Commonwealth of Independent States, the loose association of former Soviet republics.

"Of course, a significant role in the decision to sack the cabinet and nominate a new one was played by the well-known oligarch Berezovsky," said Mr Nemtsov.

Having been instrumental in sacking the Kiriyenko government, Mr Nemtsov predicted that Mr Berezovsky and his corporate colleagues would now expect Victor Chernomyrdin, the new prime minister, to govern with their interests in mind.

However, he warned that that expectation might be difficult for Mr Chernomyrdin to fulfil, because of the many other interest groups he will need to satisfy if he is to stay in the prime minister's chair for long.

"They will try to do that [set the government's agenda], as always, but Victor Stepanovich [Chernomyrdin] will have to take into account other interests, first of all the interests of the political factions in the Duma," Mr Nemtsov said. "But, of course, Berezovsky has a certain moral right to dictate to Chernomyrdin. He [Berezovsky] no doubt believes that he did it all."

Editorial Comment, Page 8

Elf calls off Sibneft tie-up

By David Owen in Paris and John Thornhill in Moscow

Elf Aquitaine, the French oil group, has pulled out of its planned alliance with Sibneft of Russia, citing growing concern with the volatile investment climate worldwide, particularly in Russia.

The company said it had terminated negotiations with Sibneft "in the light of these recent economic developments and the continuing low oil price".

However, it emphasised its decision did not stem from a disagreement between the two sides and said they would continue to explore the possibility of other types of mutual co-operation.

The move comes five months after the proposed tie-up – described then as a major strategic alliance for the development of oil and gas activities in Russia – was announced in a very different economic climate for investment in the region.

As originally outlined, Elf was to pay $528m for a 5 per cent stake in a company called Yuksi, being formed through the merger of Sibneft and Yukos, another big privatised oil company.

An executive close to negotiations between the two Russian companies disclosed in May, however, that their merger – billed as creating the world's biggest private oil group by reserves – would be frozen until the end of this year and would probably never take place.

Western oil companies have recently been reluctant to increase their exposure to Russia in spite of the tempting opportunities which have been dangled in front of them.

The Russian government has twice had to postpone the privatisation of the Rosneft oil group for lack of bidders. It is also struggling to find a buyer for a 5 per cent stake in Gazprom, the world's biggest gas company.

Sibneft has been locked in a dispute with minority shareholders in its daughter companies. Concerns have also been raised about the behind-the-scenes influence of Boris Berezovsky, the influential powerbroker, who has an undefined interest in Sibneft.

But Sibneft has recently been making efforts to improve its image and recently asked a group of western experts to draw up a corporate governance charter, by which it promised to abide in future.

Debt restructuring plan unveiled

By Vincent Boland and Jeremy Grant in London

The Russian government last night announced the restructuring of its short-term debt.

The debt restructuring involves switching some $40bn of short-term rouble-denominated debt into longer-dated bonds denominated in both roubles and dollars.

Much of the debt, in GKOs (Russian treasury bills) and OFZ bonds, is held by foreign investors, who have been waiting for details of the restructuring plan since it was unveiled last week.

The restructuring plan was signed last night by President Boris Yeltsin and Victor Chernomyrdin, the new prime minister, after the rouble continued to sink against the dollar, sparking fears that Russia would not be able to finance its foreign currency debt into next year.

Under the terms of the long-awaited plan, existing short-term debt will be exchanged for rouble-denominated bonds with maturities of between three and five years, which will pay interest at rates of between 20 and 30 per cent annually depending on when the bonds mature.

The plan also allows foreign investors to switch existing debt holdings into dollar-denominated bonds, which will pay interest at 5 per cent annually and will mature in 2006.

Foreign bankers and economists have been comfortable with Russia's sovereign debt position throughout weeks of market turmoil, including the imposition of a 90-day moratorium on some foreign commercial debt and the closure of the local treasury bill market. But yesterday's slide in the rouble would put pressure on Moscow to dip into foreign exchange reserves to defend the currency, economists said.

However, a senior Russian finance ministry official said that a default was "beyond consideration".

Oleg Bouklemishev, head of the international capital markets department, said the GKO swap would have no effect on the country's ability to meet its external debt payments.

Standard & Poor's and Moody's Investor Service rank Russia's rating low enough to imply its vulnerability to sovereign default.

Foreign bankers said that Moscow needed to service $15bn-$17bn in foreign currency debts next year, including trade credits, International Monetary Fund loans and eurobonds.

Despite an estimated $7.5bn due from the IMF and World Bank next year, reserves have fallen to around $13bn as part of a failed defence of the rouble. Prospects for borrowing abroad on international capital markets are slim due to battered investor confidence and the delay in unveiling the debt restructuring plan.

Arrears and barter return as bank credit dries up

Business says it can no longer use a banking system that is insolvent, writes Charles Clover

Paying the new price: customers clamour to buy the remaining onions at an agricultural fair in St Petersburg yesterday Reuters

A western oil executive in Moscow says that for the past week and a half customers have been offering to pay him in suitcase loads of cash.

"No one wants to risk using the Russian banking system for settling transactions any more," he says.

Corporations report that their deposits have been frozen and that bank transfers have been cancelled.

"The Russian banking system as it stands, is insolvent," says the oil executive.

Having only recently started to flourish as an alternative transaction system to the country's massive barter economy, Russia's banks have been seized by financial thrombosis. Five of the largest have announced they would merge into two groups and more consolidations could follow as the government, to escape a crisis in its own finances, brings the Russian payments system to a halt.

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On August 17, the government declared a 90-day moratorium on repayment of foreign commercial loans by banks, which in effect dried up all foreign credits to the banking system, an important source of liquidity. The only other source of liquidity to the banking sector was its short-term treasury bill holdings which account for a third of Russian banks' assets.

As a result, without foreign bank lending and not being able to cash in their treasury bills, Russia's banks have no source of cash to pay out depositors who want their money back.

Although Russia's mass media, which is largely owned by banks, have played down the crisis, depositors nonetheless sense the panic, and have lined up all over Moscow to withdraw their money.

On Monday, depositors gathered outside a Moscow branch of Menatep bank, a Russian bank which last week was the first to default on its foreign debt under the moratorium on repayment. An armed guard prevented them from entering the bank to withdraw their money.

"They say they don't have the money. I say they do," says one elderly man in the crowd.

Last Thursday, the Russian government promised that all household deposits would be guaranteed, and over the past three days, the central bank has pumped 12bn roubles ($1.5bn) into the banks, according to Brunswick Warburg, the Moscow brokerage. But these new credits have caused a further fall in the rouble, and yesterday morning the Micex currency exchange had to close after the rouble lost 10 per cent in early trading.

The importance of bank credit to the Russian economy is not immediately obvious. Most ordinary Russians are neither customers nor clients of the banking system, which despite galloping growth in the past three years, remains small as a percentage of the overall economy, its total assets just more than 25 per cent of gross domestic product, compared with more than 100 per cent for most modern industrialised countries.

Indeed, a boom in sales of durable goods last week fed optimism that Russians would simply shrug off the effects of the crisis, that the collapse of the "virtual" economy would have little effect on the real economy.

But it has become just as apparent that while retail sales may be up, orders from wholesalers have fallen dramatically as the retailers are not rebuilding their inventories, largely because their access to finance has been cut off.

Western companies that import consumer goods to Russia using Russian distributors have noticed sharp drops in wholesale orders because of cash-flow problems or simple uncertainty.

"What they are doing is simply draining working capital out of the system, by drawing down their inventories and not replacing them," says Alan Bigman of Access Industries, a US industrial group with holdings in Russia.

Without access to bank credit, say experts, businesses will simply go back to generating their own "credit" spontaneously, by running arrears to suppliers, or by transacting via barter. Arrears in the Russian economy total some 35 per cent of GDP, but have stabilised over the past few years as bank credit has grown, though wage and pension delays are still chronic.

And in the end, by crippling the banks to finance itself – as the crisis measures have the effect of doing – the Russian government risks a repeat of the crisis.

"The danger is that companies which used to finance themselves with credits from banks will instead finance themselves by not paying taxes," says Mr Bigman, "and then the crisis starts all over again."

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VICTOR CHERNOMYRDIN MEDIA WELCOME ACTING PM BACK INTO THE FOLD

Riding high on 'white horse'

By John Thornhill in Moscow

Much of Russia's mainstream media yesterday welcomed Victor Chernomyrdin's return, conveniently forgetting the stinging criticism they handed out when he was sacked as prime minister five months ago.

On Monday night, ORT, the main television channel, carried interviews with regional leaders praising Mr Chernomyrdin's managerial abilities. Their foreign correspondents also noted how highly the acting prime minister was rated abroad.

"Yesterday the Russian elite greeted the sacking of Sergei Kiriyenko with undisguised glee," said Nezavisimaya Gazyeta, a newspaper believed to be the mouthpiece for Boris Berezovsky, the self-styled Kremlin powerbroker.

"All this excitement and even joy can be explained by the fact that a long-expected pause has arrived which will allow them to forget the economic crisis – which 99 per cent of the politicians do not understand – and get back to their normal business of politicking." Vitaly Tretyakov, the newspaper's editor, who last week predicted the latest turn of events with uncanny accuracy, yesterday urged the Communist party in the Duma, the lower house of parliament, to support Mr Chernomyrdin. Everyone must now help him to "hoist the political and financial bar-bell that Kiriyenko was unable to get off the ground", he wrote. "Any delay is tantamount to death."

The Sevodnya newspaper also argued that Mr Chernomyrdin would be able to strike a deal with the Duma by forming a coalition government even if it meant sacrificing parts of the previous government's anti-crisis programme. "In the long term, the Duma will become the main support for the premier," it said.

Sergei Markov, director of the Institute of Political Research, an independent think tank, said there was a clear distinction between the way the Russian and foreign press had reported Mr Chernomyrdin's reappointment.

"Most of the foreign analysts look at the situation from an economic point of view and are suspicious about Chernomyrdin's reappearance. But the Russian political elite think the economic crisis is the result of the political situation and therefore cheered his return," he said.

"They are happy that Victor Chernomyrdin now appears in the White House [the government headquarters] on a white horse and can do almost anything he wants to do," Mr Markov said. "They think that Chernomyrdin can calm the situation and compromise with the Duma to form a coalition government."

Yet there were plenty of dissenting voices within the Russian media and concern about the role that Mr Berezovsky had played in the latest political upheaval.

Chernomyrdin: managerial skills

Russky Telegraf, a newspaper controlled by Vladimir Potanin, one of the leading "oligarchs" claimed that Mr Berezovsky's hidden hand was again at work in ejecting Mr Kiriyenko and picking the members of Mr Chernomyrdin's government.

"Berezovsky is Our President," the newspaper said on its front page, echoing the election slogan of Mr Yeltsin in 1996.

NEWS DIGEST

KOSOVO POUNDED

Agencies suspend aid as Serbs continue offensive

Serbia yesterday ignored calls by the UN Security Council for an immediate ceasefire in Kosovo province by pounding ethnic Albanian villages with artillery for a third day.

International aid agencies suspended relief efforts for several thousand civilians who have fled the government's renewed offensive against separatist rebels of the Kosovo Liberation Army.

On Monday, the UN Security Council called for a ceasefire and the resumption of peace talks. Noting growing numbers of refugees – more than 230,000 since the conflict began six months ago – and the approach of winter, the UN said Kosovo was heading for "an even greater humanitarian disaster".

Chris Hill, the US envoy leading western efforts to stop the war, met Mr Milosevic in Belgrade yesterday. But diplomats say Mr Milosevic appears determined to destroy the KLA and the villagers who support it before he enters serious negotiations. **Guy Dinmore, Pristina**

TURKISH PROSECUTIONS

Politicians face fraud charges

Turkey's chief prosecutor yesterday began legal action against 12 leading figures from the former ruling Islamist party banned by the constitutional court in January.

The politicians from the Welfare party named by Vural Savas, the prosecutor who began the case which closed down Welfare, include Necmettin Erbakan, the former Welfare leader, serving a five-year ban from politics. Seven members of parliament for the Virtue party, Welfare's successor party, are also on the list, including Recai Kutan, the party leader.

Mr Vural asked Ankara's chief prosecutor to begin fraud proceedings after the publication of a report into Welfare's assets by the Finance Ministry.

When Welfare was closed, the constitutional court ruled that the party's assets should be seized. But ministry investigators found that at least $3.7m had gone missing from party accounts between last spring, when the case against Welfare was opened, and January's ban.

If the Ankara prosecutor opens cases against some or all of the 12, the five non-deputies, including Mr Erbakan, face prison sentences of up to four years. But the seven deputies enjoy parliamentary immunity, which can only be lifted by a vote in the finely balanced chamber. **Christopher de Bellaigue, Ankara**

GERMAN INFLATION

Rate likely to reach new low

Germany's annual inflation rate appears certain to decline to a new post-unification low this month after news yesterday of record low inflation in western Germany and falling prices for imported goods.

Provisional figures based on returns from four large west German *Länder* or states pointed to a 0.1 per cent drop in the west German cost of living between July and August. The region's annual rate of inflation narrowed to 0.7 per cent from 0.9 per cent in July.

Indicating a benign international inflationary climate, the federal statistics office also announced that the price index for German imports fell by 0.4 per cent between June and July, producing an accelerated year-on-year decline in imported goods prices of 3.3 per cent last month against 2.3 per cent in June and 1.6 per cent in May.

The price index for German exports also fell by 0.1 per cent between June and July to stay unchanged last month compared with July last year. The statistics office report pointed to an improvement in the price competitiveness of German goods on world markets. **Peter Norman, Bonn**

DANISH INCOME TAX

Corporate rate to fall to 32%

The Danish government proposed to reduce the corporate income tax rate from 34 to 32 per cent and to abolish a 0.5 per cent turnover tax on share transactions when it presented its 1999 draft budget yesterday.

Mogens Lykketoft, finance minister, presenting his sixth consecutive budget, said it would damp economic growth by the equivalent of 0.5 per cent of gross domestic product. After growing at an average annual rate of 3 per cent for the past five years, GDP is expected to grow by 2.5 per cent in 1998 and 2 per cent in 1999.

The central government budget surplus will slip from DKr27.1bn ($3.9bn) this year to DKr1.7bn in 1999. But the general government budget surplus will increase from DKr14.1bn this year to DKr28.9bn next year, or from 1.2 to 2.3 per cent of GDP. **Hilary Barnes, Copenhagen**

IMF AID FOR UKRAINE

Board to reassess $2.2bn loan

The International Monetary Fund said yesterday it would reassess economic conditions in Ukraine before releasing a $2.2bn loan, citing concern over the knock-on effect from turmoil in Russia.

The IMF's board was expected to consider the loan for Ukraine by the end of August, but a board date has yet to be scheduled.

The Russian devaluation has put pressure on the hryvnia, Ukraine's currency. Russia accounts for about 40 per cent of Ukraine's foreign trade. The IMF declined to comment. **Reuters, Washington**

SPANISH FLU

Scientists find decayed bodies

Scientists seeking to recover samples of one of the world's deadliest viruses from frozen bodies in an Arctic graveyard uncovered seven bodies yesterday that were too decayed to be useful.

It was not clear if the bodies were those of the seven Spanish flu victims whom the four-nation team of investigators believed were buried beneath the permafrost near Longyearbyen, capital of the Svalbard archipelago, about 950km (600 miles) from the North Pole.

The team hopes that finding frozen remnants of the virus, which has otherwise disappeared, will help them work out its genetic profile. The Spanish flu killed an estimated 20m-40m people worldwide in 1918-19. **AP, Oslo**

CORRECTION

Russian loan

Because of a news agency error, the table in Monday's edition incorrectly listed a $100m loan arranged for Yukos of Russia by ING Barings as falling under the Russian government's debt moratorium. The loan is unaffected.

COMMENT & ANALYSIS

PERSONAL VIEW JEFF GATES

The challenge of inclusion

South Korea's unions need not be a part of the problem. If workers were given a stake, both in today's pain and tomorrow's gain, they could be part of the solution

Hyundai workers take to the street: employees feel they have only a minimal stake in South Korea's economic future AP

South Korea's labour unions are often regarded as an obstacle to the country's economic recovery. Their demand for limits on the number of redundancies hampers the restructuring of conglomerates (*chaebol*), shifts the burden of retrenchment on to smaller, non-unionised companies and sets back the cause of necessary economic reform, the argument goes. Hyundai Motor may just have settled its dispute with its workforce (the biggest test so far of new labour laws) but the basic challenge of labour militancy remains. That, at least, is the usual view.

In fact, labour unions are as much of an opportunity as a problem. The opportunity is to engage them in the cause of economic restructuring by giving them stakes in companies, thus enabling them to share in the profits of rationalisation. So far this has not happened. Workers have been offered only a minimal stake in today's economic agony, even though investors have been assured a share in the nation's eventual prosperity.

Certainly, labour must be more flexible. But policymakers need to show some flexibility too – by embracing reforms that act as a catalyst for broad-based domestic ownership, including employee share ownership.

This should help investors too. A common component in the Asian financial crisis has been cozy credit terms alongside impenetrable accounting systems. That combination deprived investors of traditional market signals that could have alerted them to trouble ahead. By creating a core of at-risk "inside" owners, investors could be assured that someone is minding the store.

Yet the conventional economic prescriptions being offered South Korea by the international financial community do not have broad-based domestic ownership at their core. That is a pity, as such policies can have a powerful impact on economic performance, civil cohesion, and political stability.

The most promising course is for labour to initiate "investment bargaining" – agreeing to take less money out of companies in return for an ownership stake. Experience with employee ownership in the US confirms that prudence tends to accompany proprietorship as workers realise they have something more complex at stake than just the size of their next pay cheque.

Certainly, opening Korean financial markets to foreign capital is long overdue. But unless those investments are structured to include workers as well as others who lack accumulated wealth, South Korea will witness a huge transfer of ownership to foreign bargain hunters.

Mechanisms that anchor capital through broad-based domestic ownership could also help damp financial volatility, while reducing outsiders' claims on the nation's foreign exchange reserves. Such domestic ownership could enhance financial stability by lowering investment risk and raising investor confidence.

South Korea has much to gain from introducing broad-based domestic ownership.

Korea risks becoming a hard-working nation whose people feel at the mercy of – rather than participants in – the emerging global economy

And employee ownership is a good place to start, particularly given the country's strained political environment with its reform-leery union leadership.

An "ownerisation" strategy could also help stimulate domestic demand as Koreans gained a source of income from both their jobs and their capital. Moreover, pressure for public-sector spending could be curbed as middle-class Koreans became more economically self-reliant.

Alternatively, South Korea could remain "agnostic" about its future ownership patterns – as many other economies have done. The risk here is that it would become yet another hard-working nation whose people feel they are at the mercy of – rather than participants in – the emerging global economy.

This period of forced change offers the chance of an historic shift. In the process of commercialising its banking and upgrading its accounting standards, South Korea could also lay the economic foundation needed to strengthen and stabilise the country's still-fragile democracy. Concerned union leaders may yet emerge as the natural spokesmen for this strategy; to do this they must seize the opportunity to gain a landmark victory for their members, while also helping the country break free from its plutocratic past.

Who knows, if South Korea embraced a "worker ownership" strategy, it might even tempt recalcitrant North Korea to experiment with free enterprise remedies.

Numerous means are available for advancing an ownership solution. What is required is the political will to rise to the challenge of inclusion.

The author is a former counsel to the US Senate finance committee and is president of the Shared Capitalism Institute, an Atlanta-based international consulting firm.

LETTERS TO THE EDITOR

Hazards of debt cancellation point to benefit in Africa finding its own sustainable growth path

From G.E. Gondwe,

Sir, Nguyuru Lipumba (Personal View, "A question of morals" August 18,) calls upon the rich industrial countries and the multilateral institutions to "wipe the slate clean" – that is, simply write off all the debt of low-income countries – citing moral and economic grounds. I take strong issue on both counts.

First, Mr Lipumba, whom I know very well from the days we worked together in Tanzania, dismisses too easily the moral hazard problems of total and unconditional debt cancellation.

Who would lend again to recipients of such cancellation? Why should countries that have misused resources more than others have more of their debt cancelled? What guarantee is there that the money saved would be put to effective use?

This latter concern is addressed under Fund-supported policies which aim to achieve high quality growth that leads to poverty reduction.

The record shows that when IMF-supported policies have been effectively implemented, the result has been higher social spending and sustained economic growth.

Indeed, in our most recent study of 32 low-income countries implementing adjustment programmes supported by the Fund during 1985-96, real per capita spending on health and education increased, on average, by an impressive 2.8 per cent annually during the programme periods, helping to underpin discernible improvements in key social indicators.

Moreover, of the 22 African countries in the study, as many as seven enjoyed real per capita growth that exceeded the average of all developing countries over the 10 years ending 1995.

Second, Mr Lipumba's implication that a total debt write-off will prove a panacea for Africa is sadly mistaken for debt is only one of many problems that Africa must grapple with, and the pressures to misallocate money are strong.

Unconditional cancellation could risk debt relief being squandered on corruption, military expenditure, or grandiose projects with little, if any, benefit in terms of sustainable growth or poverty reduction.

At the same time, there is no doubt that many low-income countries face unsustainable external debt burdens, even after traditional debt relief mechanisms.

This is why we have been moving swiftly, together with the World Bank, to implement the heavily indebted poor countries (HIPC) Initiative.

In the two years since its launch, commitments of about $6bn have been made to six countries, Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mozambique and Uganda, not exactly a demonstration of a lack of political will. Over the coming year, we hope to consider a number of others, including Mali, Mauritania, and Ethiopia.

A key aim of the HIPC Initiative is that debt relief be provided in a process that provides some assurance that the money will be put to effective use to promote poverty reduction.

Africa is a large net recipient of external resources, more than twice debt service payments – thanks to generous debt relief by creditors and large amounts of grants and highly concessional loans.

This means it is well placed to root out poverty, raise living standards and place itself on a path of sustainable growth, provided it adopts appropriate policies.

G. E. Gondwe,
International Monetary Fund,
Washington DC 20431,
US

Canadian parallel with former Yugoslavia

From Yugo Kovach,

Sir, The Canadian Supreme Court has ruled that Quebec is constitutionally bound to negotiate its exit from the Canadian confederation, should it want independence ("Canada court judgment deals blow to Quebec separatists," August 21).

This ruling echoes the letter and spirit of former federal Yugoslavia's constitution. But the EC knew better in the case of Yugoslavia.

Chancellor Kohl and company decreed in the autumn of 1991 that Yugoslavia no longer existed, its constitution was defunct and federal units could secede unilaterally.

At no time had either Slovenia or Croatia attempted to negotiate their exit in good faith, their ploy of a confederation amounting to unilateral secession in stages.

The EC handsomely rewarded the non-negotiating secessionists at the expense of the unionists.

The results speak for themselves – an ethnically pure Croatia and a Bosnia under indefinite Nato occupation.

Yugo Kovach
38 Lebanon Park,
Twickenham, Middx.
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Lesson for Russia is the safety in dollars

From Gwyn Davies,

Sir, What Russia could teach the Eurosceptics.

I am not sure what Patrick Sullivan (Letters, August 21) means when he refers to "stores of value".

Both in Russia and many other developing countries the man in the street has reverted to US dollars not because of stores of value but because of sensible, reliable and reasonably constant politics and economics.

In Russia, because of the rapid and traumatic transition from one political and economic system to another it has not been possible yet for government to be reliable and constant as witnessed by so many contradictory changes in policy.

The man in the street knows this better than the politicians and economists and is solving the financial crisis of the country in a predictable and sensible way.

Buy dollars and deal in dollars until the crisis is resolved.

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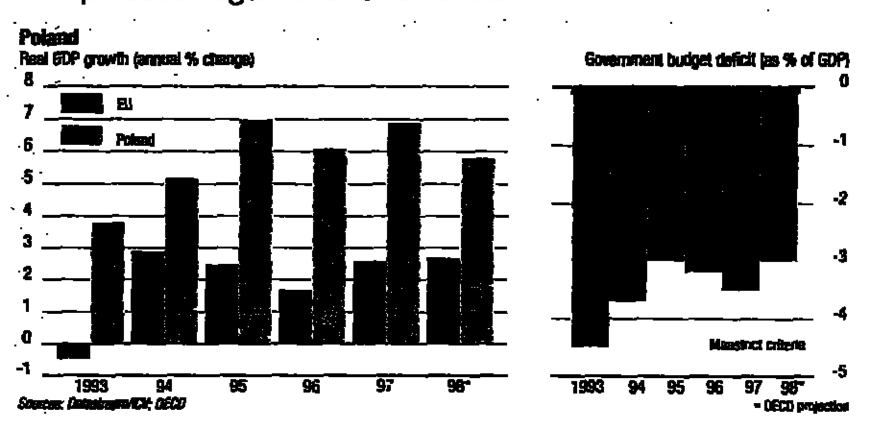
PERSONAL VIEW KIRSTY HUGHES

A most exclusive club

The EU's lack of enthusiasm for enlargement to the east threatens to make the process negative for all involved



Sources: Datastream/ICV; OECD

The enthusiasm of the European Union for enlargement to the east has never been high, in spite of, occasionally lofty, rhetoric from political leaders. But, in 1998, the mood seems to have worsened. Add to this the fact that relations between the EU and Poland, the key applicant in economic and geopolitical terms, have deteriorated and warning bells should sound. Could the EU be about to blow its historic opportunity of reuniting Europe?

Brussels appears sanguine. The Commission is adopting a traditional, narrow, technocratic approach (with a distinctly colonial tinge) to its dealings with the applicants. The EU is a club, is the Brussels line: the Commission will tell the east Europeans how and when to apply its rules and then eventually they can join.

The EU has set out priorities for applying the rules, in so-called Accession Partnerships, with funding conditional on their application. These "partnerships" represent a considerable involvement, or even an intrusion, by the EU into these countries' transition process.

Mutterings of discontent have been heard from all the applicants, most loudly in Poland. This follows various Polish-EU difficulties, ranging from trade disputes over milk and gelatine to pressure to tighten control over Poland's border with Ukraine. The latter seriously disrupted the black economy, not unimportant in transition, evidenced in the virtual collapse of Warsaw's famed flea market, one of the largest in Europe.

Poland's subsequent failure to set sufficiently precise and appropriate priorities on the basis of its Accession Partnership led Brussels, in May, to cut its 1998 assistance programme by 15 per cent. This highly political decision was seen in the Commission as a warning shot across the bows.

But, whatever the problems on the Polish side, its reluctance to hand over control of its transition process is eminently understandable. Not least because Poland has had one of the most successful political and economic transitions of the former Communist countries.

The Commission fails to acknowledge the impact it is inevitably having on the transition process. It sees the deteriorating and increasingly fractious relationship with Poland as entirely of Poland's own making. Indeed, the view is even heard in Brussels that the deterioration is welcome, forcing the Poles to face up to reality. Tones of sibling rivalry can increasingly be heard; resentment perhaps at the growing confidence and assertiveness of this dynamic new regional player in the middle of Europe.

Meanwhile, attitudes not unfamiliar in the UK are being heard in Poland. "Poland will not go to the EU on its knees," is a commonly heard phrase. Coming back from Brussels bloodied but unbowed is increasingly popular at home. Although public support for the EU remains high (partly based on ignorance), the possibility of a nationalist backlash is real. This could draw in various political groupings, industrial and agricultural lobbies, elements of the church and some of the losers from transition: the unemployed, the poor, the elderly.

The Commission needs to rethink its hectoring elder-brother stance and to recognise its wider strategic impact on the applicants. This requires the member states to give a stronger lead and not simply to chase their own short-run domestic interests. Unfortunately, if unsurprisingly, the opposite appears to be happening.

Although Robin Cook, the British foreign secretary, promised a flying start to enlargement negotiations when they began this March, the British Presidency was, in fact, marked by a distinct faltering in the EU's commitment to enlargement. The political will so crucial in driving the single currency project forward is notable by its absence. Nor is the central Franco-German engine acting as a driving force. While Germany has significant political, economic and security interests to the east, France is distinctly lukewarm on the whole project.

But Germany, too, is becoming more ambivalent, willing to contemplate the first entrants not joining until 2006 or even later. Germany is already reaping economic rewards as the largest trader and investor in the region without enlargement; and many of its security concerns will be assuaged when the Czech Republic, Hungary and Poland join Nato next year.

So domestic political and public concerns are coming to the fore: Polish workers taking German jobs, Russian mafiosi crossing open borders, higher budget contributions, agricultural reform, migration, unfair competition – the list is long and growing.

Such concerns are magnified many times in Austria, even though it, too, has important economic interests in the transition economies. Fears of unemployment, migration and general xenophobia are all being stoked in the growing debate now taking place, suggesting the current Austrian presidency may be singularly ill-placed to bring dynamism to the process.

Enlargement begins to look as if it could divide as much as unite Europe. Both Austria and Germany are looking for long transition periods – even up to 15 or 20 years – before people from the first new member states can live and work freely in the EU. And countries such as the Czech Republic and Hungary are already under pressure – from Austria as much as from the European Commission – to tighten control over their borders with second-wave applicants, such as Slovakia and Romania.

This notwithstanding, the fact is that even the front-runners may not join the EU for seven or eight years, with another decade or two before they are allowed to lift borders with the EU.

So divisions are being encouraged not bridged. Short-run, domestic interests are dominating, with little sign of strategic leadership from any of the member states. In the absence of such political will, not only could enlargement be a very long way off but the half-hearted process of getting there could be damaging rather than beneficial to both sides.

The author is deputy director of the Institute for Public Policy Research, and was previously head of the European programme at the Royal Institute of International Affairs.

SALZBURG FESTIVAL

Rocky road to new territory

While there is much to enjoy, the experiments have not all been wholly successful, says **David Murray**

Except for the concert performances of *Parsifal*, Salzburg's operas in the Grosses Festspielhaus this summer have hardly reached a decent festival standard. There is a rich schedule of concerts, of course, spreading beyond the intractable monster hall; and many plays, too, in keeping with the long tradition.

I heard Mark Wigglesworth conduct one of the "Mozart-Matinees" in the Mozarteum, a hall of such dazzling Baroque splendour that it would be worth attending a dud concert just to view it. This concert was no dud: the Mozarteum

'Soon' looked like a ballet with pikestaffs accompanied by a collage of distant sounds

Orchestra played up for Wigglesworth with verve, even at his reckless speed for the finale of Mozart's "Prague" Symphony.

There was the statutory annual performance of Mozart's lovely C minor Mass in another Baroque-enhanced treasure, the ancient church of St Peter. The work is incomplete; formerly Salzburg used a version by Alois Schmitt, who raided other Mozart masses to fill in gaps, but for years now they have preferred Helmut Eder's more cautious reconstruction. Christiane Oelze was the leading soprano: fine in the "Et incarnatus", but she and Cornelia Hosp sounded less than exultant in their glorious duet.

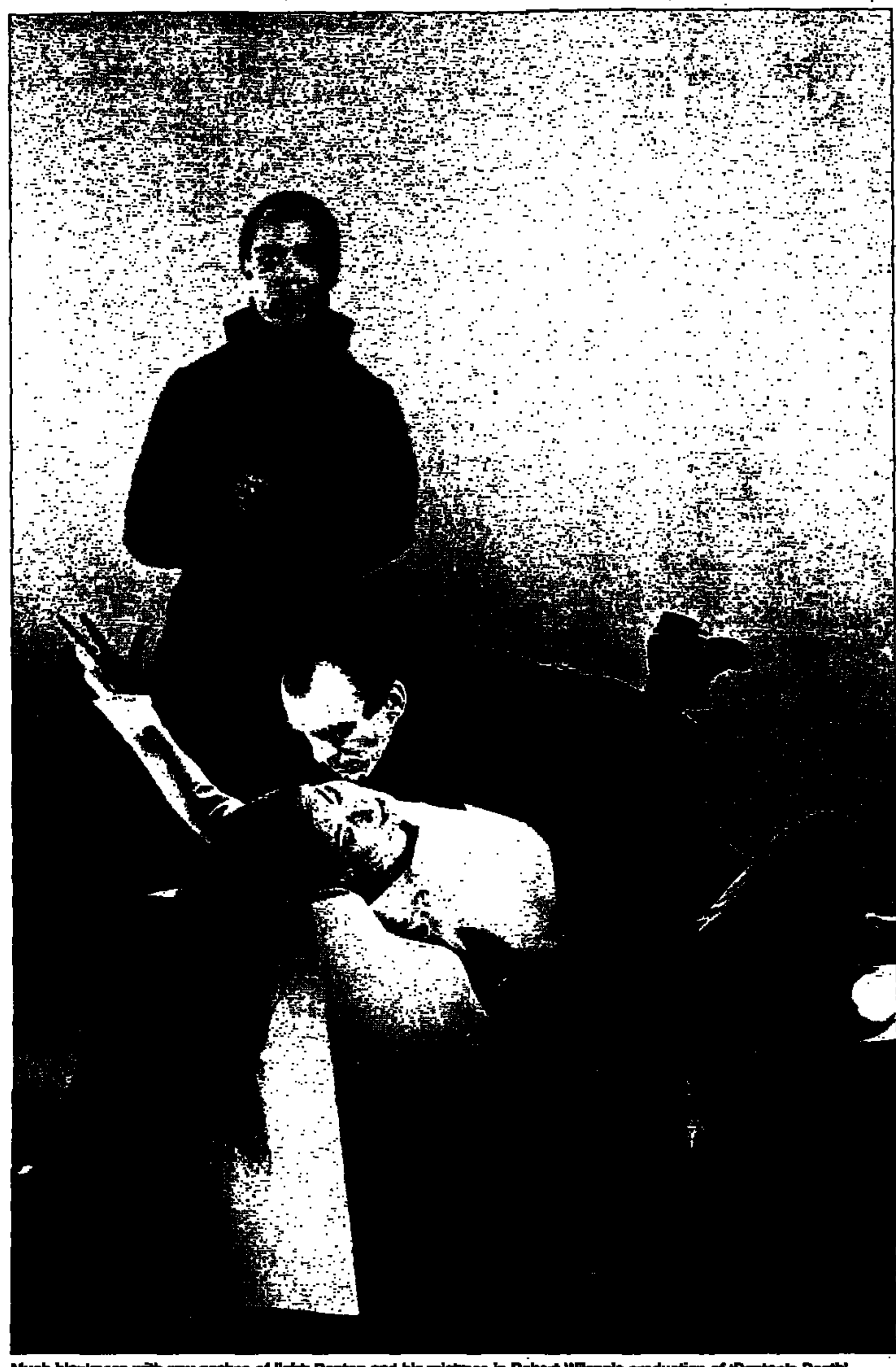
At the Landestheater, the American Robert Wilson directed the Berliner Ensemble in *Danton's Death*, by the author of *Woyzeck*, Georg Büchner. Every Wilson production has its own peculiar style; here, the actors declaimed intensely and passionately while disporting themselves in slow motion, with mannered, finicky hand gestures. It looked striking, as expected: much blackness, raw gashes of light. Thierry De Mey's disturbing score sustained the air of menace and horror.

Gérard Mortier, the festival's director, is a great admirer of Hal Hartley's cult films. He persuaded Hartley to create *Soon*, a "musical play" about American religious cults, inspired in particular by the Branch Davidians who came to grief in Waco, Texas. The result (without the songs originally intended) was produced on the Perner Island outside town.

The features that distinguish Hartley's cinematic style scarcely came into play. We saw seven earnest actors on an almost-bare stage, spinning out mad scriptural numerology and apocalyptic prophesies in bland, sweetly reasonable tones until disaster struck, in an understated sort of way.

It was non-judgmental to a fault. The only "action" was supplied by ritualised play with four microphones on booms: every speech was delivered through one of those, held by another actor. It looked like a ballet with pikestaffs, and there was an accompanying collage of distant sounds and musical fragments. As a festival exhibit, *Soon* was pretty implausible.

Obviously Mortier wants to take the festival into new territory. A better pointer toward what might be done was François Abou Salem's clever production of Mozart's *Abduction from the Seraglio*, set amid the sights and sounds of an almost-real Islamic world (behind a United Nations barbed-wire barrier). I found it continually intriguing and thought-provoking, packed with bright ideas. The singers were good, and the whole show – with a sizeable contingent of Turkish/Arabic performers – was vivacious and disarming. More "experiments" like this would be very welcome.



Much blackness with raw gashes of light: Danton and his mistress in Robert Wilson's production of 'Danton's Death'

Muddle in an Irish menagerie

THEATRE

ROBERT HANKS

Tarry Flynn
Lyttelton Theatre, London SE1

The phenomenal popularity of Irish plays on the London stage in recent years seems to have created the impression that any old blarney can be passed off on an English audience as long as it has a touch of the brogue about it. Certainly one or two indifferent efforts have had a surprising degree of success.

The Abbey Theatre's staging of *Tarry Flynn*, now stopping over at the Royal National Theatre's Lyttelton stage, is not exactly indifferent – the production's sheer scale and effort keep it from being that – but it is certainly a disappointingly muddled and muddling piece of story-telling.

Patrick Kavanagh's original novel, at least partly autobiographical, tells of the maturing of a poet in a rural parish in the 1930s. The story is affectionate and rapturous, but culminates with Tarry's departure, driven away by petty feuding and the narrowness of country life.

The programme for this production blazons a quotation from the book: "Any incident, or any act, can carry within it the energy of the imagination." But in adapting and directing it, Conall Morrison seems to have taken that line over-literally. From start to finish, there is barely a moment when the stage is not jam-packed with ideas, props, bicycles and people – there is, after all, a cast of 30 to make use of.

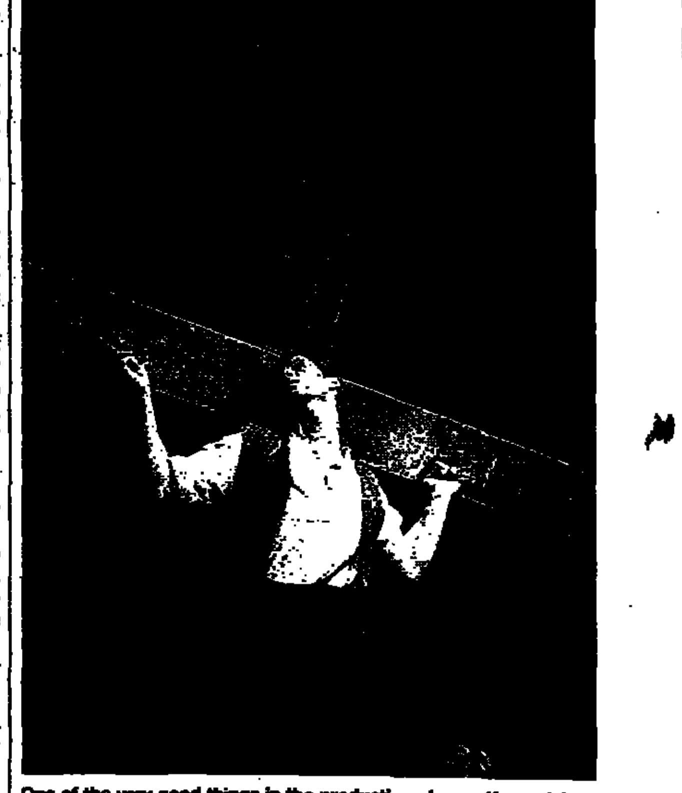
It begins with a tableau of men scything, hoeing, ploughing, fighting, dancing in an orgy of mime disconcertingly reminiscent of the chimney-sweeps' dance in the Disney film of *Mary Poppins*. Straight after this, we plunge into the kitchen of the Flynn household, where a number of cast members are pretending to be chickens, clucking, jerking their heads, leaping on the furniture. This is the first of a number of animal mimes, all of which are brilliantly done; but the brilliance distracts from rather than serving the narrative; so that by the time a "cow" staggers bow-legged from her encounter with a bull, lighting a post-coital cigarette with one hand, patience is wearing thin.

There are very good things in the production, not least James Kennedy's central performance – all awkward elbows and sulks, until anger or ecstasy breaks through and the romantic

We are plunged into the kitchen of the Flynn household, where a number of the cast members are pretending to be chickens

spirit inside the shell blazes out. But the ecstatic moments, when Tarry is absorbed in a kind of pantheistic glory, are neutralised by isolation and haste, washed away in the flood of narrative; and any sense of poetry is hard to come by.

Tarry Flynn leaves you with no doubt that Morrison has a flair for big scenes, and as any good adaptation should, it sends you off to the book. But you are left wishing that Morrison had paid a little more attention to the book's title – didn't the name "Tarry" suggest anything to him?



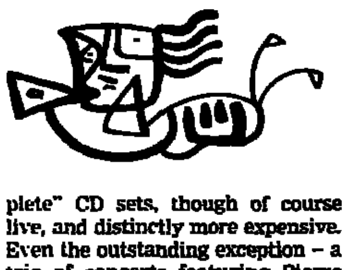
One of the very good things in the production: James Kennedy's central performance as Tarry Flynn Alastair Muir

EDINBURGH FESTIVAL RETRO MUSICAL PACKAGES AND 'LUISA MILLER' IN CONCERT

Young Verdi tunes up for Traviata

Most of the music at the festival comes in tidy, coherent packages: all the Mozart quintets, most of Schumann's piano music, all Verdi's operas after Schiller plays, all the songs of Hugo Wolf, all the Sibelius symphonies . . .

Those are pretty safe, retrospective packages: rather like "com-



plete" CD sets, though of course live, and distinctly more expensive. Even the outstanding exception – a trio of concerts featuring Pierre Boulez as conductor and composer, next weekend – looks back over almost 90 years (and anyway, Boulez has passed his 70th birthday). Naturally enough, what younger audiences come to Edinburgh for nowadays is the Fringe.

I heard the last of the festival's Verdi/Schiller operas, *Luisa Miller*, given a concert-performance (like *Giovanna d'Arco*) in the Festival Theatre on Sunday. All things considered, opting for a concert-performance seemed wise as well as thrifty. That Verdi found the original Schiller play – *Kabale und Liebe*, seen in London some years ago in a fine Vienna Burgtheater production – dramatically inspiring is not in doubt; but nor is the fact that Verdi and his librettist Cammarano reduced it to ludicrous Romantic melodrama.

In their hands, as modern critics have remarked, the first half of Schiller's Angry-Young-Man play comes out like Act 1 of *Giselle*. Well-founded anxiety about censorship (this was 1849, not a good time for anti-Establishment drama), along with the Italian-operatic routines they inherited, could scarcely have had any tougher result. It is not worthwhile to spend money on sets and stage rehearsals for it now, but support from the Royal Opera House Trust for these concert-performances (there is another on tonight) was nevertheless welcome, and well-deserved.

For the general audience, there was the fun of discovering some potent passages in early, non-famous Verdi; and for devout Verdi specialists, this "transitional" opera is a signal blend of well-learned older styles and exciting pre-echoes. For my part (I am no specialist), the most intriguing portion of the score was the first part of the last scene, in which Schiller's dissident young hero poisons both himself and his beloved in a fit of outraged pique.

As the innocent heroine slowly expires, we get a preview of the last act of *La traviata*: closely similar musical structure, similar sequence of musical events with the same key-modulations, even some identical phrase-endings. Evidently Verdi had a musical vision of how a saintly heroine should die (in stages, onstage) which was transferable from ultra-decent Luisa to poor, ruined Violetta. And why not?

The most intriguing part of the score was when the dissident young hero poisons both himself and his beloved in a fit of pique

The Royal Opera's performance was loud and blotty. Mark Elder conducted a rather thrilling overture; then the RO Chorus came in, lustily but in indeterminate Italian (has their language-coach fallen victim to the House sackings?), and then the principals – who seemed barely to have been introduced to one another.

At least the young Luisa, Fiorella Burato, has been playing her role onstage, and was both skilful and affecting; but Ignacio Encinas as her Rodolfo bellowed his way through his part, all on his own, bent upon maximum effect with minimal concern for pitch.

Luisa Miller is notable for its three prominent bass or bass-baritone roles. Paata Burchuladze of course made a powerful heavy father (Rodolfo's), though he has acquired a worrying wobble since I heard him last; Barseg Tumanyan's forceful villain Wurm was wearyingly forceful. Only Alexandru Agache, as Luisa's kindly old dad, suggested richer depths of character. Ruby Philogene sang the luckless Duchess with warmth and grace, and Leah-Marian Jones lent an appealing voice and face to Luisa's faceless confidante.

★

I heard the final concerts in both Paavo Berglund's Sibelius-symphony series with the Chamber Orchestra of Europe – clean, bracing and vital, with no redundant "atmosphere": at 86, Berglund is unshakeably inspired – and the Vienna String Sextet's Mozart quintets (they left their second cellist at home), which were pleasingly trim and judicious. And with Hamburg's NDR Symphony, Günter Wand conducted Bruckner's Fifth: glorious, un-crabbed authority, wonderful to hear.

It was nice of the festival to put on a concert of music by Donald Francis Tovey, the revered Edwardian commentator on Beethoven's works; but it revealed a tragic void. Richard Goode and András Schiff applied themselves affectionately to his "Balliol Dances" for piano duet, without convincing us that even one of them is as good as any of Brahms's *Liebesliederwalzer*, which they much resemble.

With Martyn Brabbins conducting the BBC Scottish Symphony, Tovey's piano concerto op. 15 proved unmemorably bland, and his op. 40 cello concerto quite interminable: more of the audience slunk away after each movement. Heartfelt sympathy for the hard-working soloists, Steven Osborne and Mats Lidström, who would have been better occupied doing almost anything else.

D.M.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
The Secret Unlocked: German Furniture Opened. Nine pieces dating from the end of the 16th to the end of the 18th century. Includes four pieces by the cabinet-makers Abraham and David Roentgen; to Aug 30

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings, which demonstrate the importance of lithography to his art and his theory of art; to Aug 30

COPENHAGEN

CONCERT
Tivoli Concert Hall
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Copland, Mahler and Sibelius. With mezzo-soprano Lorraine Hunt; Aug 28

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Louisiana at 40: The Collection Today. Anniversary exhibition of the permanent collection, designed to showcase 40 years of work. Originally based on Danish Modernism, the museum has since developed around various centres of gravity, to encompass a range of post-war styles. Highlights include works by Giacometti; to Aug 30

EDINBURGH

DANCE
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
Dutch National Ballet: Metaphors, Trois Gnossiennes, Three Pieces for Het and 5 Tangos - by Hans van Manen. With the Royal Scottish National Orchestra conducted by Paul Connelly; Edinburgh Playhouse; Aug 26

OPERA
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
Luisa Miller: by Verdi. The Royal Opera in a concert performance conducted by Mark Elder; Edinburgh Festival Theatre; *Aug 26*

THEATRE
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
● Die Ahnlichen: by Botho Strauss. British premiere directed by Peter Stein, performed by the Theater in der Josefstadt, Vienna; King's Theatre; Aug 26
● Life is a Dream: by Calderón, in a translation by John Clifford. Royal Lyceum Theatre Company production directed and designed by Calixto Bieito; Royal Lyceum Theatre; Aug 26, 27, 28, Aug 29

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
Le Comte Ory: by Rossini. Revival conducted by Yves Abel and directed by Jérôme Savary, with the London Philharmonic Orchestra; Aug 26, 28

KRAKOW

EXHIBITION
Plac Szczepanski
Tel: 48-12-422 6616
Ecole de Paris - Jewish Painters from Poland: pictures from Wojciech Fibak's collection, produced by painters working in Paris in the first half of this century; to Aug 30

LISBON

FESTIVAL Expo '98, May 22-Sep 30
Dive into the Future: this performing arts festival comes under the Expo umbrella and includes the premiere of a new work by Alan Platel; to Aug 31

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Symphony Orchestra: conducted by Jiří Bělohlávek in the world premiere of the last work completed by Berthold Goldschmidt. Programme also includes works by Martinu, Mendelssohn and Debussy. With violin soloist Frank Peter Zimmerman and soprano Rosemary Hardy; Aug 26
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Mozart and Bruckner. With flautist Emmanuel Pahud and harp soloist Marie-Pierre Langlamet; Aug 27

LUCERNE

CONCERT
International Festival of Music
Tel: 41-41-226 4400
www.LucerneMusic.ch/
St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Rimsky-Korsakov, Prokofiev, Stravinsky and Ravel. With violin soloist Dimitri Sitkovetsky; Aug 28

NEW YORK

EXHIBITION
Pierpont Morgan Library
Tel: 1-212-685 0008
a.k.a. Lewis Carroll: display of memorabilia marking the centenary of the death of Charles L. Dodgson (1832-1898), mathematician, photographer, and author of Alice in Wonderland; to Aug 30

PARIS

EXHIBITION
Jeu de Paume
Tel: 33-1-4703 1250
In defiance of painting: "Je ne peins pas, je cloue mes tableaux", wrote Kurt Schwitters. This century has seen many artists forsake their brushes in favour of a variety of other implements. Burri, Fontana and Arman are some of the artists represented in this exhibition, which proposes to explore this dimension of painting; to Aug 30

SALZBURG

OPERA
Salzburg Festival
Tel: 43-662-844501
Le Nozze de Figaro: by Mozart. Conducted by Sir Charles Mackerras in a revival of Luc Bondy's staging, directed by Joël Lauwers. With the Vienna Philharmonic and Opera. Cast includes Dwayne Croft and Barbara Frittoli; Kleines Festspielhaus; Aug 27, 29

THEATRE
Salzburg Festival
Tel: 43-662-844501
Geometry of Miracles: by Robert Lepage. Performance based on the life and work of the architect Frank Lloyd Wright. Co-production with Ex Machina, Quebec, and EXPO 1998 Lisbon; Perner Insel; Aug 28, 29

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Aug 26, 28

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Schoenberg and Bruckner; Hamburg, Musikhalle; Aug 27

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Tristan und Isolde: by Wagner. New production by Francesca Zambello, conducted by Armin Jordan. The title roles are sung by Jane Eaglen and Gary Lakes; Aug 28

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Tokyo Metropolitan Symphony Orchestra: conducted by Ryusuke Numajiri in works by Turnage; Aug 28

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo with sets by Luciano Ricceri. Conducted by Daniel Oren (Angelo Campori on Aug 26); Aug 26, 29

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

RECALL OF PARLIAMENT NEXT WEEK NEW LAW AGAINST CONSPIRACY TO COMMIT OFFENCES OUTSIDE UK

Blair unveils anti-terrorist plans

By Andrew Parker in Omagh

Tony Blair, the UK prime minister, yesterday unveiled plans for a crackdown on international terrorism and on paramilitary organisations opposed to the Northern Ireland peace accord.

Following a US attack on a terrorist base in Afghanistan last week, Mr Blair said parliament would be recalled next Wednesday to approve legislation making it an offence for the first time in the UK to conspire to commit terrorist offences in another country.

Certain individuals such as Yasser el-Serri, one of a number of Egyptians based in London, could be affected by this legislation. Cairo authorities claim he is a founder of the so-called New Vanguards of Conquest group, which they believe is another front for the Jihad organisation – which assassinated President Anwar Sadat in 1981, and is associated with Osama bin Laden.

"It has been strongly pressed on us by many states concerned at what they believe to be UK-based nationals of their countries using the UK to plan terrorist acts abroad," said Mr Blair. "In the wake of recent terrorist activity abroad this is a timely and right move to underscore our total commitment to defeating terrorism wherever it is plotted or executed."

Mr Blair used a visit to Omagh in Northern Ireland, scene of the worst terrorist atrocity in the region 10 days ago, to outline the planned anti-terror legislation. Under the proposals for Northern Ireland, people can be convicted of membership of a banned terrorist organisation on the evidence of a senior police officer. Mr Blair said the courts would also be able to draw an inference of guilt from "any refusal to answer any relevant question in the course of interrogation or subsequently, or indeed any refusal to cooperate with any relevant inquiry".

The prime minister added that there were "other matters in respect of the admissibility of evidence" which may be included.

The new anti-terror measures should help bring to justice those responsible for the murder of 28 people in Omagh. The Real IRA, a breakaway republican group opposed to the peace accord, has admitted carrying out the bombing.

Mr Blair, admitting the measures were "draconian", said the Omagh bombing had been a "tragic and evil act". He condemned groups prepared to carry out such "an outrage" as having "no political support, no base, no votes and no representation in any part of the community".

Parliament will be recalled next Wednesday and Thursday to approve the measures.

The Dail, the Irish parliament, will convene on Wednesday.

Tough moves for Northern Ireland seen as high risk

By George Parker, Political Correspondent

Before the rubble had been cleared from Omagh's Main Street earlier this month, police arrested five republicans in connection with the bomb outrage. Over the next few days, the five were released after police concluded there was insufficient evidence against them.

This was by no means the first time this had happened. In February, three republicans had been charged with the murder of Jim Guiney, an anti-nationalist "loyalist" shot in his Belfast carpet shop. This month, they too were released after the case collapsed.

But from next week, the rules of the game will change. Tony Blair, the UK prime minister, is bringing MPs back from their holidays to the House of Commons to pass new legislation. This would enable the Northern Ireland police to secure convictions for membership of a banned organisation simply on the word of a senior police officer. In the absence of compelling forensic or other evidence, the police will have a way of convicting people they believe to be involved in sectarian violence.

The legislation is certain to pass. But will these new draconian powers do more harm than good? According to Sinn Féin – political wing of the Irish Republican Army – under the new law, each of the suspects questioned and released by police for the Omagh bombings and the Guiney murder could now be facing long jail sentences. Martin McGuinness, a Sinn Féin MP, says that giving extra powers to the "discredited" Northern Ireland police will have "grave implications for the community and run the risk that innocent people would be put in prison".

Yet it is not difficult to see why the UK and Irish governments rushed to introduce new laws to crack down on the remaining republican splinter groups opposed to the peace agreement. The wave of public revulsion following the Omagh bombing, in which 28 people were killed, was coupled with an unprecedented condemnation of the murders by Sinn Féin itself. In Mr Blair's words, the bombers were outcasts.

Responding to immense public pressure to "do something" to bring the terrorists to book, Bertie Ahern, prime minister of the Republic of Ireland, announced a series of measures to improve security in the republic. Mr Blair, too, vowed to sweep the terrorists off the streets by making it easier for the Northern Ireland police to win convictions.

But there are warning voices – not confined to members of Sinn Féin – that Mr Blair's initiative could turn out to be harmful to the peace process and set back relations with an increasingly pacifist republican community.

Jane Winter, director of the British-Irish Rights Watch group, believes the London and Dublin governments have made a rash and dangerous judgment.

"When politicians talk about making it easier for the police to secure convictions, they are making it more likely for wrongful convictions to occur."

She points to the last Labour government's introduction of the Prevention of Terrorism Act, which made it easier for police to arrest people with scant grounds for suspicion that they had actually committed a crime. The Guildford Four and the Birmingham Six miscarriages of justice arose out of that legislation. Ms Winter believes Mr Blair will undermine the peace process by giving enhanced powers to the Northern Ireland police, a force widely distrusted by nationalists.

Some commentators believe the new powers are almost as harsh as internment, which was repealed earlier this year by the UK government. Human rights and civil liberties groups believe that the new measures will fall foul of the European Convention of Human Rights.

According to European diplomats, the UK's record in combating terrorism compares favourably with Spain where the current centre-right government adopted an increasingly tough policy in its conflict with ETA. Last year, members of the National Board of the Basque nationalist coalition Herri Batasuna (HB), the equivalent of Sinn Féin, were each sentenced by the Supreme Court to seven years' imprisonment for "collaboration with an armed band".

There is a history of strong powers in the Irish Republic, where terrorist suspects can be convicted on the word of a senior policeman. But such powers have yielded mixed results. In practice, juries are unwilling to convict on the say-so of a senior police officer without corroborating evidence.

In the early 1970s, IRA suspects including Mr McGuinness were jailed for membership of the IRA. At that time, the IRA refused to recognise the court's authority, leaving the judge little option but to accept the word of the police. When later that decade, the IRA started to challenge the police allegations, the court – in the absence of any other firm evidence – tended to side with the suspect.

Editorial comment, Page 9

'The people of Ireland have spoken clearly'
Ceasefires accelerate after the peace deal

Aug 1994: Irish Republican Army declares first ceasefire after long talks between Gerry Adams, Sinn Féin president, and John Hume, leader of Social Democratic and Labour party

Oct 1994: Ulster Defence Association and Ulster Volunteer Force declare ceasefire dependent on "cessation of nationalist/republican violence"

Feb 1996: IRA ends ceasefire by detonating bomb at Canary Wharf in London

July 1997: IRA declares "complete cessation of military operations"

April 1998: Peace agreement reached after negotiations chaired by George Mitchell

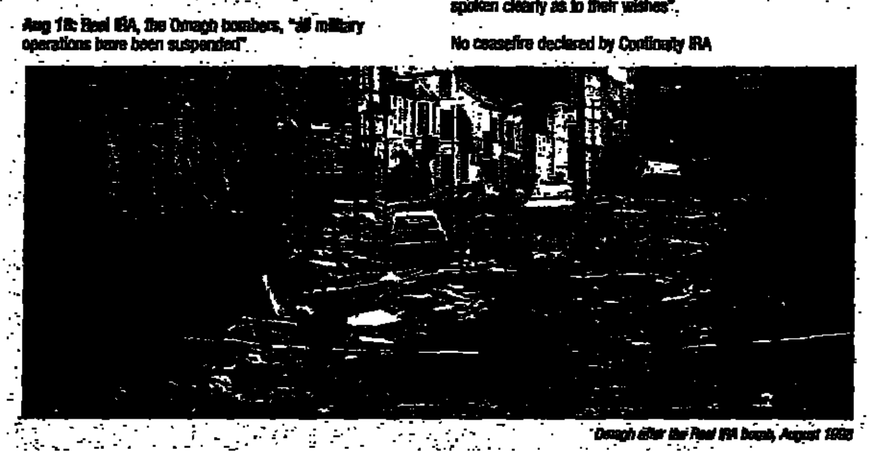
South Quay in London Docklands after the IRA bomb, February 1996

Aug 8: Loyalist Volunteer Force declares way "absolute, utter finish" to its terrorist campaign

Aug 18: Real IRA, the Omagh bombers, "all military operations have been suspended"

Aug 22: Irish National Liberation Army declares end to violent campaign because "the people of Ireland have spoken clearly as to their wishes".

No ceasefire declared by Continuity IRA



Omagh after the Real IRA bomb, August 1998

British Aerospace may close munitions offshoot

By Alexander Nicoll, Defence Correspondent

British Aerospace is considering whether to close the ammunition businesses of Royal Ordnance, its munitions subsidiary, in response to declining orders and growing price competition from outside the UK.

John Weston, BAe chief executive, said yesterday in an interview that the company would have to decide within a year on the fate of the businesses and was in talks with the government.

Royal Ordnance, which has a dozen factories across the UK and employs over 4,000 people, has been struggling with a drop in demand since the end of the Cold War and the rise of lower-cost producers of bulk ammunition such as South Africa, Israel and Portugal.

Mr Weston said the problems did not extend to the German small-arms subsidiary Heckler & Koch, or to rocket motors or missile warhead technology. But he estimated that 70 per cent of Royal Ordnance's business – for which BAe does not publish separate figures – was the subject of current discussions.

BAe is understood to be discussing a joint venture between Royal Ordnance and Rheinmetall, the German defence group, as one means of preserving the business while eliminating excess capacity. Closing the factories would be sensitive because, in a conflict, the British armed forces would have to depend on companies in other countries

Mr Weston said the UK government would have to decide whether it was prepared to pay prices above the world's best in order to maintain UK industrial capability for strategic reasons.

BAe, he said, could not sustain the factories without a higher return and needed to run them on a more secure basis, so that their survival did not depend on winning each new order.

Although Royal Ordnance had cut costs, Mr Weston said, "we are getting to the point where we are not able to continue to offer ammunition at the lowest possible market prices."

Royal Ordnance makes ammunition in England and Wales and small arms in England and in Sterling, Virginia.

It makes electronics and fuses in northern England and explosives and propellants in England, Scotland and the Netherlands. Royal Ordnance recently announced 475 job losses affecting seven factories.

NEWS DIGEST

OFFSHORE INDUSTRIES

Norway and UK sign deal to open up gas pipeline

Norway and UK energy ministers yesterday signed an amendment to the long-disputed Frigg treaty, opening up the under-used pipeline linking the Frigg field, which lies astride the boundary between the two countries, to gas from nearby Norwegian and UK fields.

The agreement, outlined in principle earlier last year, allows Norwegian and UK fields to use the spare capacity on the two pipelines connected to the St Fergus terminal in Scotland as the Frigg field nears depletion. It also establishes a new framework agreement eliminating the need for separate treaties each time companies want to connect new gas fields across the Norwegian-UK border.

"The revised Frigg Treaty will enable the continued use of the two Frigg pipelines beyond the life of the Frigg field, which has diminishing gas reserves," John Battle, the UK industry and energy minister, said during the Offshore Northern Seas oil conference in Stavanger, Norway. "It will also improve the viability of marginal field developments in UK or Norwegian waters."

The two governments emphasised, however, that the agreed revisions would not result in any major changes immediately. Yesterday's agreement also gives the UK jurisdiction for the first time over parts of the Norwegian-owned pipeline, owned by Norsk Hydro, Statoil, Elf Norge and Total Norge.

Separately, it updates procedures to deal on abandoning the Norwegian and UK pipelines. Elf and Total own interests in the UK line. The Frigg dispute dates as far back as 1992, when the UK government rejected Norway's request to use the pipeline to transport oil from fields other than Frigg. **Valeria Sköld, Stavanger**

ANTI-FEDERALIST FACTION

'No finance' from Eurosceptic

Paul Sykes, the multi-millionaire Eurosceptic, will not finance the attempt by two former Conservative MPs to stand as independent "anti-federalists" in next year's elections for the European parliament.

Mr Sykes, who gave financial assistance to anti-Emu Conservative candidates during last year's general election, said yesterday he would not finance the breakaway faction proposed by Nicholas Budgen and Tony Marlow in the Strasbourg parliament.

"I don't want to be involved in party politics," said Mr Sykes. "I wish them well but I won't be backing them financially."

Mr Budgen and Mr Marlow, who lost their seats in the House of Commons last year, and who both failed to become official Conservative candidates for the European parliament, had approached Mr Sykes for financial help. Both men face expulsion from the Conservatives, the main opposition party, if they stand against official Conservative candidates. **Liam Halligan, London**

CITY OF LONDON

Plan for link to deprived areas

The City of London is to be linked to the neighbouring boroughs of Tower Hamlets, Newham, and Barking and Dagenham in a single electoral area for the new Greater London Authority under draft proposals published yesterday by the Local Government Commission. The decision to join the city's 5,000 voters eastwards with the deprived London boroughs rather than with the wealthier boroughs of Westminster, Kensington and Chelsea and Hammersmith and Fulham to the west, makes it the one constituency for the new authority where the commission has linked diverse electorates together. Elsewhere, to create 14 constituencies from the 32 London boroughs, the commission has joined broadly similar electorates in terms of politics and socio-economics. **Nicholas Timmins, London**

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 26.08.98 — Final Prices for Trading on 24.07.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	13.13	9.43	9.43	0.00
0100	12.40	9.32	9.32	0.00
0130	12.40	9.32	9.32	0.00
0200	12.40	9.32	9.32	0.00
0230	12.40	9.32	9.32	0.00
0300	12.40	9.32	9.32	0.00
0330	12.40	9.32	9.32	0.00
0400	12.40	9.32	9.32	0.00
0430	12.40	9.32	9.32	0.00
0500	12.40	9.32	9.32	0.00
0530	9.32	7.00	7.00	0.00
0600	9.32	7.00	7.00	0.00
0630	7.63	9.31	9.31	0.00
0700	12.98	9.37	9.37	0.00
0730	13.19	10.82	10.96	1.71
0800	13.75	13.67	13.81	1.71
0830	14.17	14.75	14.89	1.71
0900	15.72	15.57	15.71	1.71
0930	16.85	18.29	18.44	1.71
1000	17.17	24.80	24.95	1.71
1030	17.41	24.82	24.98	1.71
1100	25.40	15.84	16.02	1.71
1130	28.44	15.88	16.07	1.71
1200	28.47	18.24	18.44	1.71
1230	28.27	18.55	18.74	1.71
1300	25.05	18.52	18.71	1.71
1330	18.59	16.46	16.63	1.71
1400	16.77	16.43	16.59	1.71
1430	16.74	16.42	16.56	1.71
1500	16.70	27.42	27.58	1.71
1530	14.88	27.42	27.59	1.71
1600	14.90	27.44	27.51	1.71
1630	14.93	27.48	27.65	1.71
1700	27.41	27.50	27.69	1.71
1730	27.38	27.47	27.65	1.71
1800	16.66	18.41	18.57	1.71
1830	14.67	15.75	15.89	1.71
1900	14.68	15.44	15.58	1.71
1930	9.44	15.44	15.58	1.71
2000	9.44	19.49	19.63	1.71
2030	9.44	19.49	19.63	1.71
2100	14.68	19.49	19.63	1.71
2130	14.68	18.25	18.38	1.71
2200	18.51	23.81	23.95	1.71
2230	18.51	21.81	21.95	1.71
2300	18.41	13.67	13.81	1.71
2330	13.20	13.42	13.58	1.71
2400	13.52	13.31	13.46	1.71

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per Megawatt-hour, rounded to two decimal places. [illegible] ©Energy Settlements and Information Services Limited

FINANCE INITIATIVE GOVERNMENT DEPARTMENTS PLAN TO HAND OVER 750 BUILDINGS

Property privatisation to widen

By Nicholas Timmins, Public Policy Editor

The Inland Revenue and Customs and Excise are jointly to transfer their entire property portfolio to the private sector in a deal that will rival the social security ministry's privatisation of most of its offices last April. The transfer will be done under the government's private finance initiative (PFI), in which private finance is attracted to public projects.

Trillium, the Goldman Sachs-backed consortium which won the social security contract, yesterday said it was "very seriously considering the opportunity" of Steps, as the new project is known. Michael Medlicott, managing director of Servus, the Nomura-backed PFI and property vehicle, which on Monday announced that it had acquired the facilities management business of Turner and Townsend in order to strengthen its ability to bid for such contracts, said the deal was "a very exciting prospect."

The two departments plan to hand over on a 20-year contract a total of 750 buildings, 430 belonging to the Revenue and 320 to Customs and Excise, with the successful bidder providing the them with serviced accommodation in return. The buildings currently cost about £300m ($495m) a year to run, with the departments' looking for both savings and better value for money for the £6bn it would otherwise have spent.

The deal is roughly the same size as the social security transfer, which involved 700 buildings with 1.6m sq m of estate against the 1.5m involved in Steps.

The Inland Revenue said the two departments were looking for a single consortium to take on the deal. Offering their property jointly should lower the bidding costs for both sides while offering greater opportunities for savings and innovation.

Under the social security deal, called Prime, Trillium paid just £250m for the ministry's property portfolio in a sale, leaseback and service arrangement which the ministry believes will both save it money and improve the quality of its accommodation over time.

Other parts of government considering similar moves include the education and employment department and, in particular, the employment service. Commentators believe the private sector will in time adopt similar arrangements, with big companies increasingly ceasing to manage their own property in more direct ways.

Trillium said it had held talks with a number of other big companies. But a spokesman said most are waiting to see the early results from Prime before committing themselves.

Consultants to government on Steps are being recruited over the next six months with the invitation to tender planned for the second quarter of next year.

Sony shoots first in games battle

By Alice Rawsthorn in London

Sony, the Japanese electronics and entertainment group, has fired the first shot in the pre-Christmas computer games battle by announcing that it will cut the price of its PlayStation games console in the UK from £129.99 to £99.99 ($214 to $164), from Friday.

Nintendo, the Japanese games maker which is Sony's chief competitor in the fast-growing computer games sector, said it planned to monitor the impact of Sony's price reduction on sales of its own Nintendo 64 system before deciding whether to adjust its price this year. Price has become one of the principal competitive weapons in the fast-growing games market in the three years since the the Sony PlayStation went on sale in the UK and vied with the Sega Saturn, as the first of the new generation of 32-bit games systems.

Sony has since progressively reduced the price of the PlayStation from £299.99 in September 1995 to £129.99 on the eve of the launch of the Nintendo 64, the first 64-bit system, in March last year. Nintendo retaliated last autumn by slashing the 64's price by £50 to £99.99. So far, Sony has emerged as the victor in the computer games battle. The PlayStation was the first games system to be launched by the group, and has become Sony's most successful new product. It comfortably outsold the Saturn, and has subsequently stayed ahead of the Nintendo 64. Sony claims to have sold 2.5m PlayStation consoles in the UK.

Sega is now concentrating its resources on developing a new, more advanced system, called the Dreamcast, which could be introduced in Japan before Christmas and in Europe late next year. The Dreamcast uses 128-bit technology, which should give it more realistic visual imagery than 32-bit and 64-bit formats.

Sony and Nintendo are also developing new systems, but are still investing heavily in marketing the PlayStation and 64. Sony plans to invest £10m on a promotional campaign for the PlayStation in the UK this autumn.

A recent analysis by ChartTrack, the market research consultancy, estimated that sales of all computer games software should reach £980m in 1998, compared with a total of £624m in 1997.

Magical tigers' teeth mark the museum where myths expire

Michael Peel explores a bizarre collection of artefacts in a hidden setting which has changed little since the 19th century

Oxford's Pitt Rivers Museum is easily missed. Its only entrance is at the back of the University Museum's natural history collection, beside a case of fossils from Wales.

Yet the Pitt Rivers believes it may contain a higher density of artefacts per square metre than any other such institution in the world. Behind an arched doorway lies a high-ceilinged, windowless chamber so filled with a sense of the supernatural that it makes the worldly wonders outside seem banal. The museum, in the words of the poet James Fenton, "is the fabled lands where myths go when they die".

It is also a product of its time. Its contents and layout reflect the ethos of its 19th century benefactor, General Pitt Rivers, who accrued objects on the grounds that "in a few years all the most barbarous races will have disappeared from the earth or will have ceased to preserve their native crafts".

In the twilight world of the Pitt Rivers, magical tigers' teeth from the Naga Hills in India nestle alongside a stoppered silvered bottle purporting to contain a witch.

The exhibits are diverse and often quirky. The museum contains two cases of betel-chewing appliances on one floor and what purports to be a replica of the Virgin Mary's engagement ring on the next.

There is little space for text or images to place objects in their context and the exhibits are generally grouped thematically rather than geographically. One cabinet contains a west African magician's rattle-wand, a shaman's crown from Siberia and a Japanese memorial pole topped with a bear's skull – complete with chopsticks for the animal's supper in the next world.

The apparently haphazard presentation raises difficult questions for a museum that claims to inform and enlighten.

Some would say, as the guidebook acknowledges, that the collection is a "decontextualised jumble", a "monument to colonialism filled with loot properly belonging to other people".

But the Pitt Rivers argues that these statements do not fully describe a museum that is sensitive to cultural considerations. It has good relations with representatives of a number of aboriginal peoples and has removed several exhibits it considered would be offensive.

The museum is eager to portray itself as a place for the serious study of ethnography rather than a repository for anthropological curiosities. One attendant says some of the most grotesque human remains in the collection – such as a set of hideously deformed skulls – are now hidden from public view. But as the museum tries to play down the more gruesome aspects of its collection, it says they form a core part of its appeal.

Julia Nicholson, assistant curator, says the Pitt Rivers is not about to change its appearance to fit in with modern ideas about what a museum should look like. It is considering introducing hand-held computers to guide visitors but the character of the collection will remain consistent with James Fenton's image of a mystical and barely attainable land.

Among the estimated 1m objects in the Pitt Rivers collection is this Yoruba carving from Nigeria of Queen Victoria

GDP CONTRACTION NEW PROJECTION OF 7% FALL COMPARED WITH EARLIER ESTIMATE OF NO MORE THAN 5.5%

Thai-IMF deal sees faster decline

By Ted Bardacke in Bangkok

The Thai government yesterday approved a new agreement with the International Monetary Fund which predicts a further decline in gross domestic product this year and broadens the country's commitment to structural economic reform.

The new GDP projection contained in the letter of intent is for a 7 per cent contraction, compared to a June projection of a 4 to 5.5 per cent contraction. If, as expected, the letter is approved by the IMF executive board in mid-September, Thailand will draw down an additional $173m from its $17.2bn rescue package; it has withdrawn $11.1bn so far.

Finance minister Tarrin Nimmanahaeminda told a news conference the recession had deepened more than expected in the past three months with the latest bad news coming from Russia. He suggested the effective devaluation of the rouble last week had discouraged the flow of funds to all emerging markets, including Thailand.

Tarrin: bad news from Russia

The country's capital account continues to show large levels of short-term capital outflows, $23.3bn against $18bn to $20bn previously estimated. Export earnings in dollar terms are expected to contract by 3.3 per cent against projected growth of 1.4 per cent, although volume growth will remain strong at 8.8 per cent.

The lower targets are offset by a number of positive macroeconomic projections. Inflation will slow to 9.2 per cent, down from an earlier projection of 10.5 per cent, while the current account surplus is expected to be 10 per cent of GDP up from 6.9 per cent. The fiscal deficit will be allowed to increase to 3 per cent of GDP, with additional spending for infrastructure investment and social works programmes.

Partly because of this fiscal expansion, "the economy will bottom towards the end of the year, setting the stage for a modest recovery of growth in 1999," the letter states.

Official interest rates have come down substantially and the monetary targets and pledges in the programme remain unchanged.

The government is to allow foreign investors to own small plots of land, office buildings and condominiums. It also plans to extend lease-hold periods to 50 years with a automatic 50 year extension, up from the current 30 years plus 20 year extension.

On corporate debt restructuring the government has promised to develop arbitration procedures among deadlocked creditors and give special attention to the 100 largest cases in the country. As part of the debt workout facilitation, the government expects parliament to approve a new bankruptcy and foreclosure law by the end of October, with a further foreclosure amendments to be introduced by the end of the year.

Seoul backs US on North's 'N-plans'

By John Burton in Seoul

Hong Soon-young, South Korea's foreign minister, yesterday supported US suspicions that an underground facility being built by North Korea was linked to efforts to revive its suspended nuclear weapons programme.

In a report submitted to parliament, Mr Hong said, however, that neither Seoul nor Washington has yet to secure "any proof that North Korea violated the [1994] Geneva nuclear agreement" in which Pyongyang agreed to freeze its nuclear weapons programme. In return, the US, South Korea and Japan promised to build North Korea two new light-water nuclear reactors of no military use.

The foreign minister said Seoul was still prepared to provide $3.22bn for the North Korean reactors, about 70 per cent of the $4.6bn project.

With Kim Dae-jung, the South Korean president, pursuing a "sunshine policy" of economic co-operation with the North, Seoul officials had earlier played down reports that the underground facility, detected by US spy satellites, was part of the North's nuclear weapons programme. Mr Hong, who was recently appointed as foreign minister, is regarded as a hardliner on North Korea.

Seoul is in close contact with Washington on the suspected new nuclear facility, which is near the North's old one at Yongbyon, and is hoping to receive clarification from current talks between the US and North Korea in New York on the implementation of the 1994 nuclear freeze agreement.

The US has asked North Korea for an explanation of the underground facility, while raising concerns over Pyongyang's development and export of long-range missile technology to Iran and Pakistan.

There is speculation that Pyongyang might be building the new facility as a bargaining chip to force the US to lift economic sanctions and provide more food aid to the North's starving population.

The North has threatened to restart its nuclear programme if the US fails to supply this year's shipment of 500,000 tones of fuel oil by October 21 as promised under the 1994 agreement. The US is late in delivering nearly half of this amount because Congress has refused to approve $30m in funds.

Mr Hong said the US is considering relaxing its economic sanctions against North Korea, but faces negative reaction from Congress following North Korea's threat to resume its nuclear activities.

"Washington, however, is thinking of providing US wheat to North Korea as humanitarian aid," he told parliament.

Japanese parties to oppose bank reform

By Michiyo Nakamoto in Tokyo

Three of Japan's leading opposition parties agreed late last night to adopt a united front against the government's banking sector reforms. The move threatens the ruling Liberal Democratic party's attempt to pass urgent legislation to resolve Japan's crippling banking crisis.

The opposition parties agreed to submit an alternative proposal for dealing with the troubled banking sector. The opposition has criticised the LDP's plan as unclear and its aim to use taxpayers' money to protect the interests of its traditional supporters.

The last-minute agreement was reached as the LDP-proposed bills and the rescue plan for the Long Term Credit Bank were presented to the Diet, where they are expected to face harsh criticism today. It raises the stakes for the LDP, which has faced a tremendous backlash over its decision to bail out LTCB.

Yesterday Keizo Obuchi, the prime minister, emphasised that the government's plan to inject more than Y5,000bn ($34.4bn) into LTCB in exchange for broad restructuring was a measure aimed at stabilising the financial system.

Kiichi Miyazawa, the finance minister, said the plan was intended to prevent the "unfathomable impact" that the possible collapse of LTCB would have not only on Japan but also on the global financial system.

Speedy passage of the six financial stabilisation bills is seen as crucial to restoring the health of the financial system and resuscitating the economy, which faces a possible deflationary spiral, according to Taichi Sakaiya, head of the Economic Planning Agency.

The Democratic Party of Japan, the largest opposition party, is calling for a thorough explanation from the LDP on why public funds need to be injected into a bank that the authorities claim is not insolvent.

As part of a recapitalisation programme, the government has already injected Y176.6bn into LTCB. Given that LTCB's share price has fallen from Y232 on March 31 to Y57 yesterday, the value of the government's stake has, in theory, fallen to less than a third of the amount it injected, notes Kiyoshi Sugawa, senior researcher at the Democratic party's Policy Research Committee.

A further injection of public funds without a clearer explanation of why LTCB needs more public money is "like putting money into a black hole," he says.

The situation also raises questions about whether the decision to inject public funds into LTCB in the first place was right. The Democratic party plans to ask that a member of the committee entrusted with deciding which banks should receive public funds, be called to the Diet for questioning.

NEWS DIGEST

MALAYSIAN MP FACES DISQUALIFICATION

Opposition leader jailed after losing appeal

Malaysia's federal court yesterday dismissed the appeal of a leading opposition member convicted of sedition and publishing false news. Lim Guan Eng, deputy secretary-general of the Democratic Action party, immediately began serving concurrent sentences of 18 months' jail for each offence. A sentence of more than a year will disqualify him from parliament, where he has served for 12 years.

Mr Lim says the authorities challenged his right to criticise them for not detaining, still less prosecuting, a politician alleged to have committed the statutory rape of a 15-year-old schoolgirl. Instead, they detained the girl for more than two years. The authorities cited insufficient evidence to prosecute the politician.

Marina Mahathir, daughter of the prime minister, Mahathir Mohamad, wrote at the time: "What protection can we hope for our daughters if, in the interests of politics, a minor can be so easily sacrificed?"

Mr Lim was fined M$15,000 (US$3,550) but appealed. The court of appeal allowed the public prosecutor's counter-appeal and handed down the jail sentences. Mr Lim appealed again but lost yesterday. "Today is a black day for justice," said Suaram, a human rights group. "Lim's case is politically motivated and he is a victim of selected prosecution." **Sheila McNulty, Kuala Lumpur**

FOREIGN ROLE DEBATED

India plans insurance sell-off

The Indian government is planning a "broad opening" for private companies when the insurance industry is privatised, but it has still not decided whether foreign companies will be able to take part, the chairman of the Insurance Regulatory Authority said yesterday.

N. Rangachari said India would not restrict the number of companies in the business, and would allow them to decide where to locate offices and what type of insurance they want to sell.

However, he said, life and non-life insurance would be separate businesses. Companies would be required to submit business plans when seeking licences, and would be expected to keep to them. He also said that participation in the industry would be limited to "Indian companies that may or may not have a foreign equity holder".

Foreign insurance companies are eager to get a foothold in what they see as a vast, under-served market. Indians spend just $7 per person in annual insurance premiums, compared with $219 in Malaysia.

However, the ruling Bharatiya Janata party is split over whether to allow foreign players to get involved. The finance minister, Yashwant Sinha, is said to support foreign participation, but that is strongly opposed by more doctrinaire nationalists. **Amy Louise Kazmin, New Delhi**

JAPANESE MANUFACTURERS

Car sales fall sharply

Japan's three largest car makers said yesterday domestic sales and exports fell markedly in July from a year earlier.

Toyota Motor, the nation's largest carmaker, said domestic sales fell 6.6 per cent to 174,628 cars in July from the same month last year. Exports of Japanese-made cars overseas dropped 8.8 per cent to 128,721.

Nissan Motor's sales in Japan fell 9.3 per cent to 95,078 cars, and exports were down 3.1 per cent to 67,077. Honda Motor said sales in the home market tumbled 9.8 per cent to 58,767 cars. Exports, which make up a large part of the company's sales, dropped 13.3 per cent to 41,086.

Honda's car output outside Japan jumped 12.2 per cent in July to 97,000, and Toyota's overseas production rose by 8.9 per cent to 125,329 cars. Nissan said overseas production fell 18.9 per cent to 73,217. **AP, Tokyo**

AUSTRALIAN POLICY

Immigration from Asia cut

Australia will accept fewer refugee immigrants from Asia next year and more from Europe than in the previous year, Philip Ruddock, the immigration minister, said yesterday. But the shift in refugee origins had nothing to do with the rise in popularity of the rightwing politician Pauline Hanson, who warns Australia is in danger of being "swamped by Asians", the government said.

"While the overall size of the programme is the same as in 1997-98, we are working closely with the United Nations High Commissioner for Refugees to ensure that the programme remains targeted to those in greatest need," Mr Ruddock said. He said the biggest single refugee intake would come from the former Yugoslavia. Australia would accept 12,000 people under its humanitarian programme in the 12 months to June 30 1999, a figure slightly below the 12,055 in the previous 12 months.

Australia accepted 685 people from southern and south-east Asia under its humanitarian migration programme last financial year. But this number will be reduced to 180 this year. **AP, Canberra**

Jiang's visit to Japan delayed by policy splits

By James Kynge in Beijing

The decision by Jiang Zemin, China's president, to postpone an historic visit to Japan next month was prompted partly by differences about what should be agreed at the summit, Chinese officials and foreign diplomats said yesterday.

The official reason for the indefinite postponement of the visits to both Japan and Russia in early September was that perilous flooding across much of China made it impossible for the president to be away. His trip to Japan was to be the first by a Chinese head of state since the second world war.

But while the floods were an important factor, Chinese dissatisfaction with the accords that Japan was preparing to endorse also made Mr Jiang reluctant, diplomats and officials said.

The centre-piece of the visit was to be a joint statement setting out the principles of a bilateral relationship which has changed since the cold war ended and since the Japan-China Peace and Friendship Treaty was signed 20 years ago, Chinese officials said.

The new document would seek partly to reflect the fact that Russia is no longer a common enemy but rather an ally of China's and on improving terms with Japan. But Japan wanted to dilute clauses proposed by China on the issues of Tokyo's wartime aggression and its policy toward Taiwan, which Beijing regards as a renegade province.

Beijing is wary about Japan's attitude toward Taiwan, partly because a US-Japan security pact appears to leave open the possibility of military support for Taipei. Beijing remains in a territorial dispute with Tokyo over the nearby Diaoyutai (Senkaku) islands.

Diplomats said that China, its stature enhanced by the success of Mr Jiang's summit with President Bill Clinton in June, felt that by delaying the Japan visit it could increase pressure on Japan to accede to more substantive written statements. There was little likelihood the summit would be cancelled, and one Chinese commentator said it could take place as early as November.

The delays, however, hamper progress toward the creation of what many in the US hope can become a "triangular" relationship between Washington, Tokyo and Beijing. This, it is envisaged, would complement the development of a "strategic partnership" between the US and China, which received a boost during the Clinton-Jiang summit.

The trip to Russia has not been as problematic as the proposed Tokyo summit. But, diplomats said, Moscow still harbours a sense of hurt toward Beijing for the warm reception Mr Jiang gave to Mr Clinton.

AP adds from Beijing: China is still aiming for an 8 per cent gross domestic product growth this year, but President Jiang warned yesterday it could fall short of the goal. "If it is somewhat lower, I don't think people should be worried," Mr Jiang said.

He said this year's floods would have "no serious impact" on China's economic growth.

Malaysia's Anwar stumbles from centre-stage to the wings

Sheila McNulty on how Mahathir's deputy has been forced to adopt a more dutiful role

Anwar Ibrahim, Malaysia's deputy prime minister, emerges from the shadow of his office into the glare of the television lights. The scene reminds him of Shakespeare, he starts to say. But, even as the journalists pause politely, he is unable to remember his lines.

Anwar: has got back into line behind the prime minister AP

For a politician as polished as Mr Anwar, never at a loss for a famous quote to capture the moment, it is an uncharacteristic stumble. Whatever the Shakespearean excerpt that might have crossed his mind, saying it out loud would probably not be in keeping with the new role he has been forced to adopt – that of a more dutiful deputy to the prime minister, Mahathir Mohamad.

The fact that Dr Mahathir has forced Mr Anwar to live with this new circumspection is testament to how fast Mr Anwar's star is fading. It is now no longer certain that Dr Mahathir's once anointed successor will succeed him.

"He certainly is in trouble," said K.S. Jomo, professor in the faculty of economics and administration at the University of Malaya. "But I don't think Anwar's position is irretrievable."

Just two months ago, Mr Anwar was strutting the world stage, openly challenging Dr Mahathir's attempts to rally nationalistic support by condemning the regional financial crisis as a conspiracy by foreigners to undermine the economy. As Dr Mahathir warned of a "guerrilla war" by Asians if foreigners used the crisis to take over regional economies, Mr Anwar pointed to frailties within the system and urged Asia-wide reform.

He supported high interest rates and fiscal conservatism, even as Dr Mahathir called for looser monetary policy to ease pressure on companies. The cabinet was reported to have backed Mr Anwar in an early showdown. He seemed to many a more reasonable alternative to the ranting prime minister and began appearing on the covers of international magazines. His support among the investment community built rapidly.

Too rapidly, it seems, for his own good. On the eve of the general assembly of the United Malays National Organisation (Umno), the dominant political party, analysts breathlessly predicted a showdown between Dr Mahathir and Mr Anwar. But then a thin volume, titled "50 Reasons Why Anwar Cannot Become Prime Minister" found its way into delegates' bags, despite Mr Anwar obtaining a court injunction against its distribution.

That changed everything. The author, Khalid Jafri, former editor of a defunct tabloid, and his publisher made no attempt to hide their identities – a rarity in a culture which, fearing harsh retribution, refrains from criticising those in authority. It strongly suggests that they had the backing of someone with clout.

The book accuses Mr Anwar of a catalogue of serious misdeeds, all of which he has denied.

The matter is now with the courts, both civil and criminal. Mr Anwar is suing for libel while Mr Khalid has been charged with maliciously publishing false news (he has pleaded not guilty). And the police have begun investigations into some of the events detailed in the book after complaints were lodged with them.

Whatever the outcome, the book has seriously damaged the political standing of a man who has built his reputation on being pious. And having recourse to the courts for protection has it drawbacks: "Anwar loses either way," said one analyst who, like most in Malaysia these days, did not wish to be named.

"If he doesn't persist in trying to block the book's distribution, people will say he is afraid of what might emerge in court. If he does persist, they will say he is desperate to stop its distribution for fear the truth gets out."

Soon after the book appeared, Mr Anwar got back into line behind the prime minister. But Dr Mahathir, it seems, no longer trusts him. He appointed his confidant, Daim Zainuddin, to take over economic recovery from Mr Anwar, making Mr Anwar's other cabinet position, that of finance minister, something of an irrelvance.

The head of research at a foreign brokerage house said that if two months ago Mr Anwar had been dismissed investors would have been so jolted that the ensuing sell-off would have been massive. But now, he said, after Dr Mahathir had so effectively pushed him aside, only a slight knee-jerk selling would follow.

Meanwhile, Mr Anwar is desperately trying to hang on to whatever Dr Mahathir will allow him. He vows he will not challenge Dr Mahathir in the Umno leadership election next year saying, "I want to show my loyalty to Dr Mahathir."

If Mr Anwar does not make a bid for the top spot, the next party poll will not be for another three years and waiting until then will give less prepared rivals a chance to move into the running. Najib Abdul Razak, the education minister, and Abdullah Ahmad Badawi, foreign minister, could become viable contenders.

Some of his supporters want Mr Anwar to break free from the administration and challenge Dr Mahathir head-on. But Mr Anwar so far has decided his best chance lies in winning back the confidence of Dr Mahathir. The past few months have shown how difficult it would be to out-manoeuvre the man who has run Malaysia for the past 17 years.

The minister who strode confidently on to the world stage to calm investors rattled by Dr Mahathir's tirade against them, apparently went too far. He seized the spotlight. And that could well prove to be his final act.

Perhaps what he was thinking last week, as the media turned their lights up on him, was that the past few months have had all the elements of a Shakespearean tragedy in the making.

Boeing cries foul over BA order

By Jonathan Ford in Toulouse and Christopher Parkes in Los Angeles

Disappointed Boeing officials yesterday suggested unfair pricing practices may have lured British Airways to Airbus Industrie, the European consortium awarded the lion's share of the UK airline's latest aircraft order.

British Airways yesterday announced orders for up to 188 Airbuses in what was hailed as a breakthrough for the European aircraft manufacturer.

The orders, announced by BA at Airbus Industrie's headquarters in Toulouse, include firm commitments to buy 59 aircraft, of which 39 are 124-seat A319s and the remainder 150-seat A320s. They will be delivered for use on its regional UK and European services from next September.

BA has also taken options on another 59 aircraft, and provisional options on a further 70, which can be A319s, A320s or the 185-seat A321.

It is the first time the airline has purchased aircraft from Airbus, although it inherited 10 following the takeover of British Caledonian a decade ago.

Boeing, which has complained for months that the profitability of its new generation 737 has been affected by keen pricing competition, said it was disappointed it had lost the small aircraft campaign.

"The unlevel playing field still exists," a Boeing official said. "Producing at a loss is not an option for us or our shareholders," he added.

Although the remarks echoed bitter previous arguments between the rival aerospace groups and US and European authorities, Boeing appeared undecided as to whether protests would follow. "We have to look at the result and see what we are going to do next. Anything could happen," the spokesman said.

Tony Blair, the UK prime minister who attended yesterday's announcement, welcomed the orders, saying they demonstrated "how strong Airbus has become".

Robert Ayling, BA's chief executive, said the airline had chosen Airbus because the aircraft would be cheaper to operate over their lives than their main rival, the Boeing 737-600.

He denied the orders were designed to influence the European Commission's attitude to BA's planned marketing alliance with American Airlines of the US. "At the end of the day, it all came down to cost," he said.

However, he expressed disappointment that Airbus had been unable to come up with an innovative financing package that would allow BA to reduce the capital assets it owned.

This was one of the criteria the airline specified when it invited Airbus and Boeing to tender for the order in February.

"We did receive financing proposals from the manufacturers, including Airbus, but they were very disappointing," Mr Ayling said.

BA refused to comment on the price it would pay for the 59 aircraft it is committed to buy other than to say it would be less than their $2.5bn list price, once discounts and the proceeds from sales of retired aircraft were taken into account.

The aircraft will be powered by V2500 engines made by the International Aero Engines consortium, which includes Rolls-Royce of the UK, Pratt & Whitney of the US, Germany's MTU Daimler-Benz and Japanese Aero Engines Corporation.

Separately, BA also announced it was placing firm orders for another 16 Boeing 777 long-haul aircraft with a list price of $2.4bn, and options on a further 16. Boeing said it was pleased at British Airways' "vote of confidence" in its wide-bodied long-haul jets.

"On the basis of current orders, Boeing 767s, 777s and 747s will become the only aircraft types in the airline's subsonic long-haul fleet during the next decade," BA said.

Some of the new Boeing 777s, which carry 256 passengers, replace existing BA orders for five 401-seat Boeing 747-400s, which have been cancelled.

BA have yet to award the engine contract for the new aircraft. Its existing 19-strong fleet have engines made by General Electric of the US.

Airbus chief Noel Forgeard (left), his BA counterpart Bob Ayling and Tony Blair Eye Catchers Press

Mr Ayling said BA was seeking to shift more long-haul routes to the 777 to reduce capacity and increase revenues per passenger.

The only potential competition for Boeing's long-haul range is a proposed new Airbus aircraft, provisionally named the A3XX, with space for up to 650 seats. Mr Ayling said BA remained interested in Airbus' plans to build a super jumbo aircraft, and remained open-minded about becoming a launch customer. "There is still a need for large aircraft," he said.

Lex, Page 10

Guarantees ignite flurry of Indian power plant activity

Projects are plunging ahead despite claims that the government has changed the rules in mid-game. **Amy Louise Kazmin** reports

In recent weeks, three of India's long-stalled "fast track" power projects have received their long-awaited government counter-guarantees at ceremonies marked by congratulatory handshakes and the flashguns of the Indian press.

The first project to get the coveted document was the $1.4bn, 1,084MW Bhadrawati project planned by Alstom and India's Ispat Group. That was followed quickly by a counter-guarantee for a $300m, 250MW lignite power project proposed by ST-CMS Electric Power Company, a venture between CMS Energy, the US-based utility, and Asia Brown Boveri, equipment manufacturer.

The last in the batch was a 1,040MW thermal project planned for Andhra Pradesh by the Hinduja Group and National Power of the UK, amounting to over $1.3bn.

For India's Bharatiya Janata party-led coalition, the flurry of signings is an attempt to tell the world they are serious about kick-starting stalled projects.

"We want infrastructure capital to come in," says Mohan Guruswamy, special adviser to the finance minister. "This is proof of our earnestness."

W.R. Middleton, director of National Power in India, says he is delighted with "a major step forward" in the company's effort to get the power project – initially proposed about five years ago – off the ground.

But not all investors are so sanguine. Behind the scenes, there are grumbles that these counter-guarantees are a far cry from what investors had been expecting – and what was granted to the first phase of Enron's Dabhol Power Company. "They have changed the rules in the middle of the game," says the executive of one fast-track project.

Some infrastructure finance specialists express doubt about whether the guarantees will offer sufficient comfort to lenders to bring projects to financial closure, particularly in the wake of the Asia crisis.

"Whether it is a bankable proposition remains to be seen," says a Singapore-based infrastructure financier. "Maybe a year ago, people would have said 'what the heck,' but people think differently now. There is a much higher threshold for risk than there was."

When the Indian government issued a counter-guarantee to Enron in 1994, it promised to cover the project's energy and capacity payments on a monthly basis for the duration of the foreign loans – about 13 years – if the state of Maharashtra defaulted on its payments. But recent guarantees have been watered down.

New Delhi has agreed to cover only foreign denominated debt – and only if private power producers terminate their contracts with the respective state electricity boards. That would mean lenders would have to wait much longer – and possibly have to take recourse to the courts – to get their funds, and no equity would be covered.

Power ministry officials defend the government's May decision to change the structure, saying the move broke a bureaucratic logjam that could have stalled the process indefinitely.

Since New Delhi is not liable for monthly energy payments under the new structure, they argue, central government does not need to scrutinise the power purchase agreements so intently, removing a stumbling block to issuing the guarantees. Officials also say tariff support from the central government, as promised to Enron, would have given the ailing state electricity boards little incentive to get their financial houses in order.

"If he knows somebody in Delhi would pay, everybody is relaxed and the government of India is very tense," a senior power ministry bureaucrat says. Yet the guarantees should provide lenders with reassurance that the central government will do its best to ensure that projects do not fail.

Most infrastructure financiers say the change is unlikely to stop well conceived projects from getting finance, but will raise the cost of debt. "From a bank's perspective, if the regular

'Whether it is bankable remains to be seen'

tariff is not paid, they have to wait for a while to invoke the guarantee," says Sunil Gulati, vice-president and head of corporate finance for Bank of America in Bombay. "It does introduce a lot more structural risk."

Promoters are also likely to face higher insurance premiums. Project economics have also changed. Private producers had been expecting to bill state electricity boards for a fixed amount of fuel for each kilowatt of power generated. That would allow efficient companies that used less fuel to make extra money by keeping the difference.

But in June, the government decided private power producers would have to pass the savings from fuel efficiency on to the electricity boards, billing them only for power actually used. Companies had to agree to this as a precondition to getting their counter-guarantee, although analysts say it is likely to shave several percentage points off companies' projected returns.

"You cannot keep going on cutting off a piece of the pie," says Harry Dhaul, director-general of the Independent Power Producers' Association of India. "People are fundamentally frustrated that the rules of the game keep changing."

Frustrated or not, companies with counter-guarantees are plunging ahead. ST-CMS and the Hinduja-National Power project have set December target dates for financial closure. It remains unclear whether they will meet that deadline. But if they do, the BJP government is hoping it will reap the political returns.

Russia, Vietnam agree oil project

By Our International Staff

Russia and Vietnam yesterday agreed to set up a joint venture to finance and build a $1.3bn oil refinery project at Dung Quat in central Vietnam.

The proposed refinery will be Vietnam's first and has been under discussion since the early 1990s, but had failed to win credible foreign backing. France's Total withdrew in 1995; subsequent talks with a consortium including Malaysia's Petronas, Conoco of the US, and South Korea's LG Group ended last year without agreement.

The agreement was signed as part of a visit to Moscow by Vietnam's President Tran Duc Luong. A spokesman for the Zarubezhneft oil trading company said the Russian government had authorised the establishment of the joint venture, with a charter capital of $800m. "The government has approved investing the profits of the Russian side of Vietsovpetro [an oil producing joint venture] in the new project, with the rest coming from the Vietnamese side," he said.

Vietsovpetro, established in 1967 by Zarubezhneft and the Vietnamese oil company Petrovietnam, produces between 10m and 11m tonnes a year (200,000 to 220,000 barrels per day) of crude. Russia's annual share of revenues from the venture is around $200m. The joint venture will employ Foster Wheeler, the UK engineering company, to manage the project.

The 130,000 barrels per day refinery was expected to start operating in 2002, he said. Analysts say the area in Kuang Ngai Province, has almost no infrastructure and is too far from Vietnam's nearest offshore oilfields to be workable. Nevertheless, work has started on clearing the site for the refinery, with 350 households preparing for relocation. Plans have also been discussed regarding the construction of a port.

Kabila allies step up air strikes on rebels

By Michela Wrong in Kigali

Angola and Zimbabwe both stepped up their military intervention in Democratic Republic of Congo's war yesterday, with their jet fighters and helicopters bombing rebel positions in the centre and south-west of the country.

President Laurent Kabila, back in Kinshasa after a week in his Katangese stronghold of Lubumbashi, predicted that a crushing victory was now within reach.

"The result is certain. They will lose the war everywhere. Victory belongs to the Congolese people," he told state radio.

But diplomats warned that the air strikes on Kisangani, Congo's third largest city, and Kasangulu, 15 miles south-west of the capital, increased the likelihood that Rwanda and Uganda would move from covert support for the rebels to open involvement in the three-week conflict.

"If the rebels are encircled or look like losing key gains, I think we could see Rwanda and Uganda moving beyond their current concern with their border and getting directly involved in western Congo," said a Kigali-based diplomat.

Since Angola and Zimbabwe sprang to Mr Kabila's rescue over the weekend, the rebels have lost control of several towns, and are now trapped between Angolan forces advancing from the west and Zimbabwean troops holding Kinshasa.

For the fourth day running, Angolan troops were yesterday seen crossing from the Angolan enclave of Cabinda into Congo to join allied forces now under the control of Air Marshal Perence Shiri, Zimbabwe's air force commander.

The escalation coincided with reports that Uganda's 32nd battalion had moved into neighbouring Rwanda to prepare a joint airlift into the Congo, and sightings of hundreds of Ugandan troops more than 100 miles inside Congolese territory.

Amama Mbabazi, Uganda's minister of state for foreign affairs, said Kampala reserved the right to intervene if its security was threatened, or if there was evidence of a genocide being planned in Congo – an apparent reference to the anti-Tutsi propaganda being broadcast by state media.

"Our view, which we have made absolutely clear – where it comes to genocide, the matter ceases to be an internal matter," he said. "We are not prepared to have another genocide like [in Rwanda] in 1994."

South Africa, which has so far seen little response on the ground to the 10-point peace plan presented to regional leaders on Sunday, was doggedly pressing ahead with its attempt to broker a diplomatic solution.

Alfred Nzo, foreign minister, was due to lead a delegation to Addis Ababa, headquarters of the Organisation of African Unity. Luanda and Kinshasa. But Parks Mankahlana, a presidential spokesman, acknowledged how fragile the situation had become. "This is a very dangerous situation. It is still very volatile," he said.

Congolese women waiting at the ferry port in Brazzaville AP

With the war acquiring an increasingly regional character, there were signs that Namibia was also planning to join pro-Kabila forces, with two Namibian newspapers reporting hundreds of troops and armoured vehicles had been seen moving north.

● Reuters adds from Johannesburg: South Africa has airlifted 782 Tanzanian military instructors out of Congo after they were ordered out to avoid being sucked into the rebellion there, the army said yesterday. The troops were training government forces in Congo and were ordered to pull out by Benjamin Mkapa, Tanzania's president.

Nigeria announces election dates

Nigeria's electoral commission yesterday announced February 27, 1999 as the date for presidential elections, to end years of military rule in the west African country, Reuters reports from Abuja.

Ephraim Akpata, chairman of the Independent National Electoral Commission (Inec), said elections to the national assembly would take place on February 20. Election of governors and legislatures for the country's 36 states would be on January 9.

General Abdulsalam Abubakar, Nigeria's military ruler, has promised to give up power on May 29, returning the oil-producing country to civilian rule, some 15 years after a coup toppled the last elected president.

According to the timetable released by Inec, the electoral process would start with the compilation of a new voters' register. This compilation would last for two weeks from October 5.

Guidelines for the registration of political parties released by Mr Akpata require would-be parties to first contest local council elections set for December 5. Only those scoring 10 per cent of votes cast in at least 24 of the country's 36 states would be registered as political parties.

Numerous political associations have sprung up since Gen. Abubakar last month scrapped five parties and the electoral commission that operated under the late dictator Sani Abacha's discredited democracy plan. Last week, representatives of 46 political associations met Inec in Abuja, where guidelines were discussed.

After successive military rulers failed to deliver democracy to ethnically divided Nigeria, many analysts see the current process as the best chance for democracy.

Mr Akpata said the process could succeed only with co-operation from politicians. "We cannot afford to fail," he added.

Doubts raised on US target claims

By Mark Huband in Khartoum

Senior diplomats in the Sudanese capital yesterday cast doubt on US claims that a Khartoum pharmaceutical factory destroyed by US cruise missiles last week was making products for use in chemical weapons.

US claims that the al-Shifa factory in Khartoum North is part-owned by the anti-US Saudi Arabian Islamist dissident Osama bin Laden were also rejected by diplomats in the country. Several view their governments' outspoken support of the US attack on August 20 as having been seriously misguided.

"On the basis of what we know of the factory and the evidence we have been given by the US so far, there is no reason to believe that the US knew what was going on inside that factory, other than with regard to its function as a major supplier of pharmaceuticals," said one European diplomat yesterday. "Nor is there any evidence that the factory had links with bin Laden. This robust support by other governments for the US action was frankly very stupid."

This view is shared by other senior diplomats, whose apparent divergence of opinion with their governments is likely to force the US to reveal detailed evidence of its claim that the factory had a military purpose. US officials claim to have soil samples collected from the factory before the attack that showed evidence of precursors for the production of VX nerve gas.

The UN Security Council yesterday deferred a decision on whether to meet a Sudanese request to send a fact-finding mission to Sudan to verify the US claims. The US says it has evidence that Mr bin Laden masterminded the bombing of the US embassies in Kenya and Tanzania on August 7, to which the August 20 bombings in Khartoum and on Mr bin Laden's base in Afghanistan were a response. However, Sudan has not been implicated in the embassy bombings.

Diplomats in Khartoum are taking seriously the Sudanese sense of grievance which has united disparate voices in concluding that the US attacked Sudan because such action could be effective without endangering US relations with Arab allies.

Conservative Arab states and neighbouring African countries remain suspicious of Sudan's Islamist government, despite signs that it has become relatively more moderate even while continuing to be deemed a sponsor of terrorism by the US.

"The entire attack seems such a stupid thing to have done," said one European envoy. "There are military installations in Sudan that are indeed producing military hardware. Why didn't they hit one of those?"

Even so, the attack is viewed by both Sudanese officials and diplomats as having been directed at Sudan rather than Mr bin Laden, whose Afghan base was bombarded with 70 cruise missiles.

"The US says it has destroyed bin Laden's infrastructure. The fact is that the aggression has destroyed only the infrastructure of Sudan," said Ghazi Salah Eddin, Sudanese information minister. "The factory is a private facility owned by people who have links to Gulf countries who have problems with bin Laden," he said, implying that the factory-owners were not sympathetic to Mr bin Laden's campaign against US influence in the Islamic world. The factory is owned by Salah Idris, a Saudi Arabia-based Sudanese. Mr Salah is from a family with close ties to Sudan's Khatmiyya religious sect which is vehemently opposed to Sudan's Islamist government and by implication an unlikely business partner for Mr bin Laden.

Contacts between Sudan and Mr bin Laden are irregular. The Saudi is believed to have last visited Sudan in June. He still retains business interests established there in the early 1990s while he lived in the country, being the owner of two factories including the Khartoum tannery. Sudan asked Mr bin Laden to leave the country in 1996, following intense pressure by the US.

NEWS DIGEST

MIDEAST PEACE PROCESS

Netanyahu announces new West Bank settlements

Renewed Israeli and Palestinian optimism over the prospects of a deal for an Israeli troop redeployment from 13 per cent of the West Bank did not stop Benjamin Netanyahu, Israeli prime minister, from announcing new settlement plans yesterday.

Mr Netanyahu said new homes would be built for Jewish settlers in their enclave in the West Bank town of Hebron. Tensions have been mounting in Hebron since the recent killing of a settler rabbi led Israel to seal off the town, while settlers threatened reprisals against Palestinians.

Mr Netanyahu's new settlement plans may be aimed at appeasing settlers ahead of a redeployment deal. Earlier this week, Yassir Arafat, president of the Palestinian Authority, called recent Israeli proposals "a beginning". It was the first time the Palestinian leader publicly sounded a positive note on the issue. **Avi Machlis, Jerusalem**

LOCKERBIE TRIAL

Libya 'likely to accept' deal

Libya is expected to accept a US-British agreement to try two Libyan suspects in the 1988 bombing of Pan Am Flight 103 in The Netherlands, the head of the Arab League said yesterday. "The American-British proposal is compatible with the previous Arab suggestions, which Libya has accepted," Esmat Abdel Meguid said in a statement after a meeting with David Blatherwick, British ambassador.

Mr Abdel Meguid said Mr Blatherwick had briefed him about the proposals, which he later conveyed in a letter to Omar al-Muntasser, Libyan foreign minister. Under the deal announced on Monday, the US and Britain agreed to accept a trial by a panel of Scottish judges under Scottish law in The Hague.

The deal also stipulates that the suspects, Abdel Basset al-Megrahi and Lamen Khalifa Fhimah, cannot be extradited from The Netherlands and if found guilty, they would serve their sentences in the UK. Washington and London had long demanded a trial in the US or Britain.

Libya had insisted that if a trial were held it should be in a neutral country. The Libyan government has not commented on the offer. **AP, London**

FOREST CONSERVATION

Tree species under threat

A tenth of the world's known tree species face extinction, according to a global survey by conservation groups published yesterday. The three-year survey, the first of its kind, found that more than 8,750 of the 80,000-100,000 identified tree species were at risk of extinction, the main threat coming from the destruction of habitats through timber felling and forest clearance.

Almost 1,000 species were identified as "critically endangered", some reduced to only one or a handful of individual trees. Publication of the World List of Threatened Trees, compiled by the World Conservation Monitoring Centre with the Swiss-based World Conservation Union (IUCN) and World Wide Fund for Nature (WWF), was timed to coincide with a meeting of the Intergovernmental Forum on Forests. **Frances Williams, Geneva**

On November 3 Americans will vote in mid-term elections for the US Congress and state governorships and legislatures, writes Gerard Baker. The Republicans are defending majorities in the House of Representatives and the Senate, which they first won in 1994 and successfully defended two years ago.

Democrats have privately acknowledged they have little hope of regaining the Senate, where the Republicans have a 10-seat majority in the 100-member chamber and where only 34 seats are up this year.

But the race for the House is highly competitive. Democrats need to make just 11 gains in the 435 contests there to wrest back control. Though the economic renaissance seems likely to favour incumbents, the web of local issues across the country makes the outcome uncertain.

And there will also be a number of closely watched gubernatorial races.

The national result will be crucial for the direction of US politics at the turn of the new century. Not only will it decide who drives the main policy agenda for the next two years, but will set the stage for the 2000 presidential contest. It could even determine President Bill Clinton's future.

If Republicans strengthen their hold on Congress, the chances of an impeachment of the president over his alleged misconduct in the Monica Lewinsky case will probably rise. If Democrats make substantial gains, those chances will recede.

Between now and election day, FT writers will examine the range of issues that will shape the outcome, identify the candidates playing an important role in the political debate, and report on the critical races.

Iowa Republicans set fair in the bellwether state

By Mark Suzman in Washington

Most knowledgeable observers attending the livestock shows at Iowa's annual state fair this month agreed that this year's contestants were as fine a group of animals as they had seen. The pigs in particular were regarded as record breakers.

But despite the presence of a bust, made of cheese, of Terry Branstad, the popular outgoing Republican governor – and a public debate in the weather-beaten cattle barn by the two men competing to replace him – most fairgoers seemed unmoved by the state's other parade of regular summer visitors: politicians.

"I haven't paid much attention really," laughed Anne, a thirty-something woman grabbing some pork tenderloin just outside the debate arena. "I normally vote Democrat but I'm not sure what I'm going to do this year – we're really just here to enjoy ourselves."

Polls suggest she is not alone. Despite a string of well-known presidential aspirants – from Steve Forbes, the publishing magnate, to Bob Kerrey, the Democratic senator – coming to campaign for local candidates, interest in November's elections has remained unusually low. And that could have serious implications not only for who occupies the governor's mansion, but in the national battle for control of Congress.

Even outside presidential election years – when its position as the first state to hold caucuses gives it a disproportionate influence on national politics – Iowa often serves as a bellwether of broader political trends. While it twice voted for President Bill Clinton, four of the state's five congressional districts are held by Republicans.

But three of those seats were won with less than 55 per cent of the vote in 1996 and are regarded as vulnerable. If the Democrats are to have any hope of retaking overall control of the House of Representatives, they will need to win at least one of those while making sure they hang on to their own marginal seat. But to do that they need to persuade supporters to vote, a task made much more difficult by the high level of public indifference.

"Times in Iowa are pretty good," says Dennis Goldford, professor of political science at Iowa's Drake University. "There really aren't a lot of issues likely to galvanise people, and that makes it much more likely that the election will favour incumbents."

Take Greg Ganske, who represents Iowa's Fourth district, which includes the state capital of Des Moines. Mr Ganske, a former plastic surgeon, won a surprise victory in 1994 in a traditionally Democratic area on the coattails of Newt Gingrich's Republican revolution. Once in Washington he was an enthusiastic disciple of the increasingly unpopular Mr Gingrich, and by 1996 his generally rightwing stance had damaged his position at home.

In a very tight race he managed to win re-election only after his contraction of encephalitis following a public service trip to Peru left him near death and raised public sympathy.

Now enjoying better health Mr Ganske would again seem to be a prime target. But Democrats, handicapped by organisational problems in their state party apparatus, have fielded a lacklustre candidate and are short of cash.

As a two-term congressman, Mr Ganske's name recognition is now much higher, while he has also boosted his public standing by breaking with the Republican leadership to back a Democratic proposal to increase patients' rights, one of this year's few hot-button political issues.

Greg Ganske: name recognition now much higher

Although the issues and personalities differ, the same seems broadly true of the state's other seats. Democrats are further handicapped by the fact that Chuck Grassley, the state's Republican senator and its most popular politician, is also up for re-election, which should help bring more Republican-inclined voters to polling booths.

For their part, while Democrats admit there have been some problems with election preparations, they insist they are well on the way to recovery.

Having weathered a minor scandal involving a campaign manager who infiltrated a Republican strategy session, the local party has appointed a more dynamic chairman. At the same time Tom Harkin, the state's Democratic senator – who is not up for re-election – has begun campaigning vigorously.

But barring a national crisis, such as impeachment hearings for President Bill Clinton or a stock market crash, most analysts believe the population will remain largely unmoved by bigger issues. That will make it difficult for Democrats to persuade enough people to shift their attention back from pigs to politics to make a difference on election day.

Past still affects black students in US south

By Adrian Michaels in Washington

The desegregation of higher education in the southern US has almost completely failed to provide increased opportunities for black students, according to a study released yesterday.

The study, published by the Southern Education Foundation, a public charity, looked at 19 predominantly southern states that at some time had run segregated higher education systems. "Despite some promising initiatives in these states," the report says, "remnants of the past continue to restrict opportunity for black students."

The gap between black and white achievement in higher education was not being closed "and may in fact be widening," said Eldridge McMillan, president of the foundation. "This report is a wake-up call. It challenges the assumptions that blacks are making progress."

The report states that while the number of black students entering higher education has grown, the proportion of first-year black students is virtually unchanged. Nine of the states reported that the proportion had in fact fallen between 1991 and 1996, the last year for which data were available.

There were also large disparities between the number of young blacks in the population and the number in higher education.

Although "most, if not all" of the states involved are "eager to put their past behind them", the study says that policymakers and administrators are dealing with "a public ambivalence about race and a backlash" against moves towards equality.

The foundation says that many students are not enrolling "simply because they cannot afford it". In 12 of the states, at least 30 per cent of all black families earned less than $10,000 in 1995.

● Half the US public is in favour of putting state budget surpluses into improving public schools, 19 percentage points more than those who would like the surpluses to be used to cut taxes, according to a poll of public attitudes to public schools, released yesterday.

NEWS DIGEST

US ECONOMY

Existing home sales at record 4.93m units

Sales of existing US homes rose 4 per cent in July to a record annual rate of 4.93m units, exceeding market expectations and signalling the continued resilience of the domestic economy. However in a potentially worrying trend, consumer confidence fell for the second straight month in August.

The National Association of Realtors said the benign economic climate and continued low interest rates helped seasonally adjusted annual home sales break the record of 4.83m set last March. The rate is 17.9 per cent higher than for the same period last year. Analysts said sales should remain strong in the near future.

The Conference Board, a private business research group, reported its consumer confidence index fell to 133.1 in August, down four points from July. It has now dropped for two consecutive months for the first time since September and October of 1996. **Mark Suzman**

BRAZIL

External accounts up slightly

Brazil's external accounts showed a slight improvement at the end of July, according to central bank figures released yesterday. But economists warned the improvement would not be enough to shore up stability in the face of growing volatility on world financial markets. The accumulated current account deficit over 12 months stood at 3.94 per cent of gross domestic product on July 31. This compared with 4.07 per cent at the end of June. However, the level of foreign reserves fell US$692m to $69.4bn.

Reserves stood at between $69bn and $70bn yesterday, suggesting capital outflow from Brazil in the past week had been offset by a high level of direct foreign investment. **Jonathan Wheatley, São Paulo, and agencies**

FOOD SAFETY

Clinton announces new council

President Bill Clinton yesterday announced a new Council on Food Safety to co-ordinate government measures to protect the US food supply. The move followed growing concern after highly publicised outbreaks of fatal food poisoning. A report last week by the National Research Council and the Institute of Research, two government advisory bodies that are part of the National Academy of Sciences, said the number of deaths attributed to harmful substances in food was about 9,000 a year.

The new council will be co-chaired by the agriculture and health secretaries and the president's assistant for science and technology. Other members will include the top White House domestic policy adviser and the commerce secretary. **Mark Suzman**

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Dealing with a new Russia

President Boris Yeltsin's decision to sack his government on Sunday was much more than a search for a scapegoat. It was also the dismissal of the reformist agenda. The west must now decide how to deal with this abrupt and important change in Russia's policy direction.

Victor Chernomyrdin, back in office as prime minister, will undoubtedly continue to follow policies that favour Russia's powerful oligarchs, on whom he relies for funding and political support. His actions will also be constrained by the communists, who dominate the Duma and will form part of his government, and who are strongly opposed to reform. Add to this the pressure of the presidential election in 2000 and the chances of further reform are bleak.

Russia is likely to go through a prolonged period of stagnant economic growth at best, economic collapse at worst, combined with recurrent fiscal problems, whilst the power of the oligarchs grows unabated. The rest of the world must decide how best to deal with this gloomy outlook.

Although there is no immediate threat to security, there will still have to be a rethink in western foreign policy towards Russia. The west must realise that it can no longer rely on the close and friendly relations that had been building for some time. There is always a tendency for a country with domestic problems to develop aggressive patriotism to distract the attention of its people and this tendency could quickly and easily develop in Russia.

The west will also have to decide how to handle requests for economic aid from Russia. July's IMF package was granted in part to protect the Kiriyenko government, which was at last making headway on reform.

The situation now is very different. The west must not step in to help again until the Chernomyrdin government can prove that it, too, is following a reformist agenda. Any financial support must be strictly conditional on actions taken – not, as before, on promises to act, which were all too often unfulfilled. Money given unconditionally, however good the intention, will be money wasted. Conditionality is the only lever the west has to improve the dismally low chances of reform and it should be used wisely.

If the west does develop new thinking, then Russia must be told. Only the US can put across the broad statement needed about western relations with Russia. When he visits Moscow in early September, President Bill Clinton needs to speak firmly, but without confrontation, about his desire for friendly relations and the circumstances which might make them less so.

Above all, he must be clear that the relationship has entered a new phase in which the assumptions of the last few years no longer apply.

Ulster gamble

The political symbolism of the UK government's moves to crack down on terrorism in Northern Ireland may prove as important as the substance.

Tony Blair, the prime minister, calculates that new laws making it easier to convict people for belonging to illegal organisations will be broadly acceptable in the province on two conditions. The first is that his government is seen to be marching closely in step with the Irish government in the south. The second is that the active terrorists have now been isolated into a small rump without support.

After the death of 28 people in the Omagh bombing, these assumptions seem to be right. The measures which he outlined yesterday are no more than those which the Irish parliament is expected to endorse next week. And the nearly unanimous condemnation of the outrage gives hope that the mood may be consolidating behind the peace process. The announcements of "ceasefires" last week by two dangerous splinter groups – the "Real IRA", which bombed Omagh, and the Irish National Liberation Army – suggest that they too understand the danger of alienating those who share their political objectives.

But there are also grave risks. The peace process is still fragile despite overwhelming popular support. The IRA has not given up its weapons, and its rank and file might any time be provoked into a return to violence, even against the wishes of its leaders. Such provocation could come from two sources: loyalist paramilitaries or actions by the authorities. No doubt the measures outlined yesterday are partly intended to prevent the loyalists beginning another cycle of vengeance killing. This is the delicate balance that Mr Blair must strike.

But there are dangers also in adjusting the balance of rights between prosecutors and accused. Allowing courts to interpret silence or refusal to co-operate as an indication of guilt may be an acceptable step. However, jailing people on the sworn testimony of a senior officer of the Royal Ulster Constabulary would be dangerously close to internment. Insensitively used, it could stir up another whirlwind of resentment. These laws must therefore be tightly drafted.

Above all, Mr Blair must ensure that the police use the new powers narrowly and only when the evidence is overwhelmingly strong. After Omagh, everyone agrees that murderers should be caught and punished. But authorities can eradicate terrorism only if they have the broad support of the people. To do that they must show that the rule of law is applied impartially to everyone, even fanatics.

Mexican bail-out

At last some good news out of Latin America. Mexico appears to be a step closer to tidying up a multi-billion dollar bank bail-out that has bogged down Ernesto Zedillo's presidency.

At the weekend, Mr Zedillo's party and the opposition published broadly similar proposals that would force financial institutions to shoulder 25 per cent of the cost of the $65bn rescue operation and offer relief to smaller debtors. The plans helped assuage concerns that the government had been too generous with banks and big debtors and was ignoring the plight of smaller businesses and Mexico's struggling middle class.

Opposition parties, which won control of the congress last year, had refused to approve government plans to recognise the cost of the rescue as public sector debt, alleging that the rescue plan was handled incompetently and that much of the money was used to rescue government cronies. They also argue that many of the non-performing loans purchased by Fobaproa, a central bank trust, were fraudulent and backed by worthless collateral.

Responding to such concerns, the ruling Institutional Revolutionary Party (PRI) has now also promised to introduce tougher laws against white collar crime in order to pursue government officials, bank employees and fraudsters who had abused the financial system.

The opposition's positive response signals a welcome change of approach. Since they won control of congress, opposition parties have often seemed more interested in scoring political points than in tackling Mexico's pressing economic problems.

Approval of a broader package of financial reform submitted to congress along with the bail-out plan has already been held up for five months. The plan includes measures to improve bank supervision and would – among other things – allow foreigners to take over full ownership of Mexican banks. Continued stalling on financial reform would undermine investor confidence and lead to further falls in Mexican share and bond prices.

The government now needs to move swiftly to complete the bank restructuring. However, it also needs to maintain momentum in two related areas. Legal reform needs to go beyond the area of white collar crime, and bankruptcy laws must be reformed to enable prompt seizure of collateral in the event of default. In addition, the government must pursue crooked businessmen and bankers more vigorously. It is vital for the government's credibility that the biggest and most politically powerful transgressors are brought to book.

Threats of depression

Highly valued western stock markets are all that is preventing the Asian crisis from tipping over into worldwide recession, says Martin Wolf

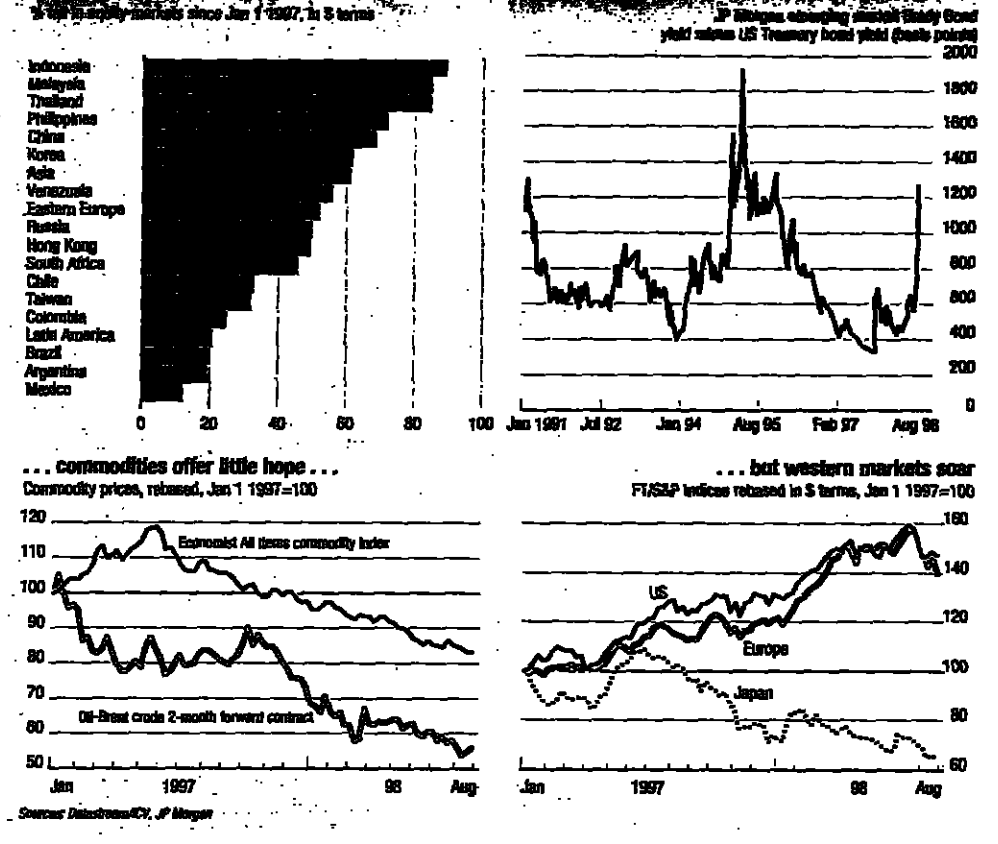
What is happening in the "emerging market" economies is a disaster. That is beyond doubt. The question now is whether it will become a worldwide catastrophe. The chances may be small. They are not, alas, zero.

With the downfall of the rouble and the Russian government, the crisis that began in Thailand in July 1997 has jumped continents. Russia is Indonesia with missiles: the path towards an enfeebled presidency, a collapsing currency and deeper political turmoil lies open before it. The justification for July's $23bn support programme, orchestrated by the International Monetary Fund, was the chance that it might prevent this calamity. It has failed.

Unfortunately, it is no isolated failure. Even where the IMF's medicine has been taken, the economic downturn is proving far deeper than expected, with each forecast for gross domestic product this year lower than the previous one.

In Indonesia, South Korea and Thailand, domestic demand is already contracting massively. That contraction will be partially offset by improvements in external balances: ING Barings forecast current account surpluses of over 10 per cent of GDP in 1998. Nevertheless, they will still suffer depressions. In its latest *Asia Economics Analyst*, Goldman Sachs forecasts that this year real GDP will contract by 15 per cent in Indonesia, 8 per cent in Thailand and 7 per cent in Korea.

Neither is recovery likely next year. An important reason for pessimism is the debt overhang. Angus Armstrong and Michael Spencer of Deutsche Bank (*Global Emerging Markets*, August 1998), estimate non-performing loans from domestic banks at more than 40 per cent of GDP in Korea and Thailand and more than 30 per cent in Indonesia and Malaysia. To this must be added an overhang of unpayable external debt, estimated at $30bn for Korea, $22bn for Indonesia and $13bn for Thailand.



Clearly, the Asian crisis is no local difficulty. It has spread globally, changing trade patterns, depressing commodity prices and undermining financial markets.

The direct effects on imports and exports have been greatest within Asia. China's net exports are forecast to deteriorate by up to 1 per cent of GDP this year. Similarly, Japan was far more reliant on exports to the rest of Asia than other high-income countries. In 1996, 42 per cent of Japan's exports went to emerging Asia, compared with only 18 per cent from the US and 15 per cent from the European Union. This year, Japanese exports to some Asian countries have halved.

But the knock-on effect goes further than that, notably through the impact of depressed commodity prices. Since May 1997, The Economist all-items index of commodity prices has tumbled 30 per cent. The price of Brent crude has collapsed from nearly $22 last September to below $13 today. Russia is the most prominent victim. But countries vulnerable to collapsing commodity prices include Australia, New Zealand and Canada; Argentina, Chile and Brazil; and the oil exporters, some of whom including Indonesia, Nigeria, and Venezuela are already in trouble.

This is raising "uncertainty premia" in emerging markets. Since the start of the year, J.P. Morgan's emerging market bond index shows a rise in spreads over corresponding US Treasuries from 500 to 1,300 basis points, with much of the increase occurring in recent weeks. Over the same period, equity markets, in dollar terms, have fallen 29 per cent in Argentina, 36 per cent in Hong Kong, 37 per cent in Singapore, 40 per cent in Mexico, 58 per cent in Indonesia and 74 per cent in Russia (see chart).

Already, therefore, this crisis has global significance. It has brought low some of the most successful developing countries. It is imposing heavy pressure on the political and social stability of many countries directly affected. It has raised questions about global capital markets. And it is spreading almost everywhere via adjustments in trade, declining commodity prices and the shrinking appetite for risk.

Yet, bad though it is, this is not the worse that could happen. Japan, the US and the European Union account for two-thirds of global output (at market prices). Provided they are reasonably stable, the crisis will remain limited to "only" one-third of the world economy. Unfortunately, that cannot be taken for granted. Things could become far worse.

The weakest link in the chain is Japan. Some recent estimates suggest non-performing loans in the banking system have reached the stupefying total of $1,000bn. With each year the authorities fail to deal with the overhang of bad debt, the worse it becomes. The difficulty, however, is that if the Japanese government were – miracles of miracles – to confront the problem, it would force households to recognise how far their wealth had been impaired. This would be because of the hole

The biggest risk is that the miraculous wealth machine will go into reverse

in bank balance sheets and the effect of the liquidation of collateral on house prices.

Together, argue David Folkerts-Landau and Peter Garber of Deutsche Bank, this could mean people waking up to a decline in household wealth of some 140 per cent of disposable income. The obvious conclusion is that households would want to rebuild their wealth. Increased savings would then more than offset any spending boost from planned tax cuts.

A weakening yen and a consequent improvement in Japanese exports, seem almost inevitable. The same conclusion comes from the argument, by Paul Krugman of the Massachusetts Institute of Technology, that Japan needs negative real interest rates.* Others argue that inflation is the only way to eliminate Japan's debt overhang.

The only plausible counter to these recommendations is the argument, advanced by Adam Posen of the Institute for International Economics, that Japan should combine monetary expansion and bank reconstruction with a more aggressively expansionary fiscal policy.** This might work. But whether it would is, in a sense, irrelevant, since it is unlikely to be tried. The combination of a more expansionary monetary policy with a still weaker yen seems much the more likely outcome.

One result would be further pressure on exchange rates in the region. China could take a yen depreciation as an excuse for a large devaluation of its own. This would then have knock-on effects on other currencies. The still more important conclusion is that Japan is set to remain what it has been: a big part of the problem, rather than a part of the solution.

The consensus view is that even this should leave the US and EU largely unaffected: the deterioration in external balances is insufficient to slow growth decisively; declining commodity prices are a helpful disinflationary shock; and, combined with the global flight to quality, low inflation is helping drive bond yields to deliciously low levels: 5.6 per cent for 10-year bonds in the UK; 5.4 per cent in the US; 4.8 per cent in Italy and around 4½ per cent in Germany and France.

The complacent conclusion is then that the agonies of emerging markets bring almost nothing but gain to the US and the EU. There is one big risk, however: stock markets.

A recent paper from those well-known British bears, Phillips & Drew (*Spending and Stocks in the USA*: research group occasional paper, number 1), notes that US household cash-flow has been strongly negative in recent years. This is associated with a decline in the personal savings rate to its lowest level in the past 35 years. Those who say US baby boomers are saving for their retirement are talking nonsense. They are letting rising paper values do it for them: the value of equities has risen from 0.7 times household annualised income to 2.1 times since 1988 because of rising stock prices.

The biggest risk confronting the world economy is that this miraculous wealth machine will go into reverse. Since equities are at historically high valuations, while swathes of the world economy are in dire straits, this is no remote concern.

In one intriguing analysis, Goldman Sachs (*The Global Equity Correction – How Big and How Damaging?* August 5th 1998) suggests that a 20 per cent decline in global equities would itself shrink global GDP by 0.75-1 per cent by the second year, with the US losing most and the EU least. This would represent a shock as large as the Asian crisis. At worst, this could even start a cumulative decline in the US economy and Wall Street.

To indicate what this might mean, consider the impact of a 50 per cent decline in the US stock market (which would merely put US price/earnings ratios at about their historic average). According to Phillips & Drew, the effect on US GDP in the second year would be to put it almost 7 per cent below what it would otherwise be. If monetary policy were eased substantially, with short-term interest rates down 4 percentage points, the shrinkage would still be 5 per cent of GDP.

Already, because of a series of mishaps and mistakes, many emerging economies are caught in a horrifyingly deep and rapidly spreading downturn. So far, this has done little to damage prospects for the US and the EU. In some ways, that has been helpful. But it is rash to assume this must last.

Much now depends on the indefinite maintenance of historically extraordinary stock market valuations in the midst of an increasingly global deflation. The world economy is being held up by its stock-market boot-straps. It is no longer a question of asking whether this can last, but of praying for it to do so.

* *Paul Krugman, "Japan's Trap", and "Further Notes on Japan's Liquidity Trap". http://web.mit.edu/krugman/www/.* ** *Adam S. Posen, How Much is Enough for Japan? Institute for International Economics, Washington D.C.*

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OBSERVER

Monopoly commissioned

Who says you can't have multi-million dollar mergers and crony capitalism at the same time? Lucio Tan, former pal of the late dictator Ferdinand Marcos, looks set to buy beleaguered food and beverage giant San Miguel from current boss Eduardo Cojuangco. Stockbroker wags in Manila have already dubbed the Philippines' flagship company "Tan Miguel".

Tan and Cojuangco both found fame and fortune in the Marcos years, when cosy monopolies were preferred to market forces. If San Miguel, the Philippines' number one beer company, hooks up with Tan's Asia Brewery, its only real domestic rival, those good old monopolistic days can roll again.

The administration of President Joseph Estrada is unlikely to stand in the way of a deal. Both businessmen put money behind Estrada in this year's election campaign. Cojuangco is head of the president's political party.

The sky isn't completely clear for Tan. The previous administration brought a tax evasion case against him, which is still hanging over his head. But now finance secretary Edgardo Espiritu – another good friend – is proposing a tax amnesty.

Tan's looking a lot more cheerful these days. There's nothing like a spot of fresh thinking from a new government to put a spring in your step.

Stalemate

AMP's strategy in fighting off the $9.8bn hostile bid from AlliedSignal has presented Wall Street's merger and acquisition specialists with a new challenge. Last week, the Pennsylvania electrical group formally rejected AlliedSignal's bid but at the same time took the highly unusual step of ditching chief executive Bill Hudson.

Wall Street can't remember seeing this tactic before, and M&A practitioners – well versed in white knight, white squire, scorched earth and even Pac-man takeover defences – are seeking a name for AMP's move. One suggestion is the drop-the-pilot defence, though Observer's current favourite is the gambit defence, after the chess strategy of sacrificing a piece for positional advantage.

The market isn't impressed with AlliedSignal boss Larry Bossidy's tactic – a vitriolic attack on new AMP boss Robert Ripp. Investors think the best way for Bossidy to checkmate AMP might be to offer Ripp a humble *j'adoube* – a chess player's way of saying: "Sorry, I didn't mean to do that."

Healthy living

Island life can be so reviving. It's only a week since the family of Christopher Skase was worrying about the fugitive Australian businessman's health – a combination of a coma, emphysema and cataracts. Now he's preparing to travel again with a brand new passport.

Never mind that the people who issued the passport are beginning to regret it. The Dominican Republic, which made him an "economic citizen" a few days ago, now says the whole thing was a "bureaucratic error".

Skase has been pursued by the Australian authorities since the 1989 collapse of Qintex, his media and resort empire, and these days lives on Majorca, pleading ill-health against Sydney's extradition attempts.

"Economic citizenship" of Dominica can be had for an "investment" of about $80,000. But embarrassed officials in the eastern Caribbean island are now pointing out that Dominica has an extradition treaty with Australia, so Skase would be well advised not to set foot in his new homeland. Even if his health allowed such a long journey.

Paris mismatch

The fortunes of Alain Juppé, the mayor of Bordeaux and former Gaullist prime minister, appeared to hit rock bottom with the right's devastating defeat in last year's French general election.

But things have taken a turn for the worse – the long-time loyal lieutenant of President Jacques Chirac has been placed under formal investigation in a judicial probe into an alleged payroll scam at Paris city hall. The authorities are investigating claims that, a few years back, some city employees were really working for the Gaullist RPR party. In those days, Chirac was mayor and Juppé was in charge of budgetary affairs at city hall, as well as being RPR secretary-general.

The decision to put Juppé under investigation moves the probe closer to Chirac himself. As for the former premier, it can't be the way he was planning to return to the public eye.

Style demo

Australian mining outfit North is getting used to protests outside its high-security headquarters on Melbourne's St Kilda Road. But yesterday was something special.

After Energy Resources of Australia, in which North is controlling shareholder, got the official nod for its planned Jabiluka uranium mine, more than 100 female executives marched on North. Clad in power suits, the self-styled "Women in High Heels" staged a "mobile phone-in" to to jam North's switchboard.

There was even a team briefing from the organisers "to be extra polite to whoever you speak with, they're just doing their job." Looks like protest Down Under is going up market.

The Financial Times

100 years ago

Americans in Cuba
Our energetic American cousins are losing no time in planning schemes for the development of Cuba. They have already discovered that there is an opening for banks, there being only two chartered establishments in the whole island, while banking facilities, it is stated, are very inadequate. There are several railways, but they, it is pointed out, are not conducted on economical plans. Altogether there is a general belief that Yankee management would effect a great improvement. This may be the case, although the experience of English investors in American railways may well cause some distrust as to the results.

50 years ago

New French Move
Paris, August 25. The French National Assembly to-day adopted by 245 votes to 193 a proposal to postpone the Departmental Elections due in October. The Socialists and most of the Popular Republican Party, the two pillars of the Government Coalition, voted for the postponement. The Gaullists, Radicals and Rightwingers voted against, while the Communists abstained.

FINANCIAL TIMES
WEDNESDAY AUGUST 26 1998

THE LEX COLUMN

Goldman's glitter

As it dances towards a stock market listing, Goldman Sachs is slowly dropping its veils. The really juicy facts – what the partners and the bank itself will be worth – are not to be revealed until October. But there is a nugget or two of new data in this week's preliminary prospectus.

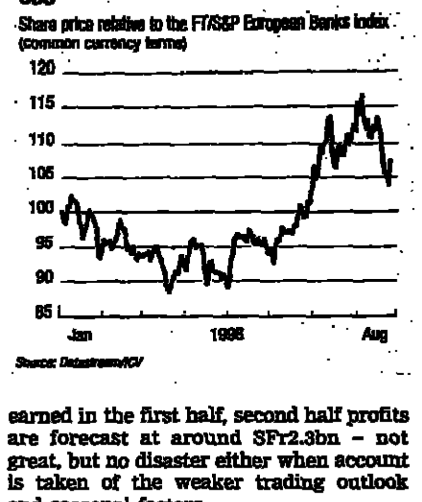
The most striking fact is Goldman's profitability. Last year it produced pre-tax earnings of $3bn on net revenues of $7.4bn – the same profits as Merrill Lynch on half the turnover. This is slightly misleading, since it does not include the pay of Goldman's 189 partners, who used to receive profit shares but will now start collecting salaries. Yet even if those were added back at, say, $3m a year on average (excluding bonuses and other goodies), Goldman's pre-tax margin over the past three years would have averaged over 30 per cent against 19 per cent for Merrill and 26 per cent for Morgan Stanley. The difference is lower "other expenses", including property and marketing costs, which amounted to 18 per cent of revenues for Goldman in 1997, compared with 30 per cent for each of the other two.

Some of this may be due to the leaner cost structure of a partnership, some due to Goldman's ability to generate exceptional returns from leading market positions in mergers and acquisitions and underwriting. But much of it simply reflects a smaller presence in lower-margin retail broking and asset management. Yet these are both more stable businesses, deserving a higher rating. In 1994, when Morgan Stanley's profits fell 10 per cent and Merrill's 30 per cent, Goldman's collapsed by four fifths. With Morgan Stanley trading at 3.6 times book value and Merrill at 3.3 times in today's jittery market, Goldman may be lucky to get three times book.

UBS

UBS

Share price relative to the FT/S&P European Banks index (common currency terms)



Source: Datastream/ICV

UBS's maiden set of results was more a case of disaster avoided than promise fulfilled. It is too soon to assess the potential of the merged vehicle properly. But the management was at least able to assuage fears about potential credit and trading losses as a result of the recent market turmoil. It did this through the unusual device of a fairly precise after-tax profits forecast – about SFr5.3bn in 1998, 10 per cent up on 1997. Given that SFr3bn was earned in the first half, second half profits are forecast at around SFr2.3bn – not great, but no disaster either when account is taken of the weaker trading outlook and seasonal factors.

The immediate aftermath of the merger was dominated by the bloody rationalisation of the investment banking operations. The focus now shifts to the retail and private banking operations. The trick will be to effect substantial changes to systems, products and client relationships while minimising customer disruption and revenue losses.

For investors, the extent of any upside will only become apparent next year. But a tactical case can be made as to why it may outperform Credit Suisse, its main rival. Its exposure to the turmoil in Russia is almost certainly less, while the risk management skills inherited from SBC should stand the bank in good stead. Finally, weakness in US investment banking may, in the medium term, be masked by strength in Europe where the outlook looks rosier.

US banks

Another of the US bull market's pillars has started to crack. After four years of strong outperformance, the banking sector has dropped 20 per cent in the past five weeks and has now lagged behind the market by almost 15 per cent so far in 1998. Investors are worried about the overseas exposure of the big money centre banks. Meanwhile, domestic regional banks and thrifts are seeing interest margins squeezed by a flat yield curve and increasing competition in the market for mid-sized corporates.

To make matters worse, a Federal Reserve survey this week points to weaker loan demand from big companies for the first time since early 1996. The obvious way to counter slowing revenue growth has been to consolidate and cut costs. But investors are increasingly suspicious of the benefits of such mergers. Shares in Banc One and First Chicago NBD are each down over 20 per cent since their April pairing, while the stocks of other banks involved in big deals have fallen too. With any rise in bad debts from a slowing economy having yet to make itself felt, there is little relief in sight for bank stocks.

British Airways/Airbus

How nice to have a positive European story involving British Airways. Confirmation of BA's first aircraft order from Europe's aircraft maker, Airbus, contrasts with its endless horse trading with the EU competition commissioner over the American Airlines alliance. But this deal is also all about horse trading. While the details remain opaque, BA's buying power, and intense competition between Airbus and Boeing, should ensure the British carrier has got a good deal. A more interesting question, once Airbus (now a consortium) becomes a single company next year, is whether it will ever make much money out of it. BA's efforts to build in "flexibility" through options, rights to return aircraft and guaranteed residual values mean the answer will take a few years to work out. BA's aim is clear: to shift the risk of ownership back towards the supplier.

The hope for Airbus, which has medium term flotation plans, is that its rapid build-up of orders over the past few years will allow it to maximise manufacturing efficiency. Big single orders like this one help it save costs by increasing standardisation. But most important is that when all the factories and other facilities are brought under the Airbus wing, the management will have the freedom to make the most cost-effective use of it. Daimler-Benz Aerospace and British Aerospace should be pushing hard for this on behalf of their shareholders.

EUROPEAN BACKING FOR SUN MICROSYSTEMS' PRODUCT IS A BLOW TO MICROSOFT

Top broadcasters favour Java for set-top software

By John Gapper in London

Leading European broadcasters have chosen Java, the software licensed by US computer company Sun Microsystems, as the likely operating software for the next generation of digital televisions and set-top boxes.

The move by the Geneva-based Digital Video Broadcasting project, a body that is trying to set global standards for digital television hardware and software, reinforces the emerging strength of Java in television.

It also represents a setback for efforts by Microsoft, a rival of Sun Microsystems, to repeat its success with Windows on personal computers and secure the same dominance over operating systems for digital television.

The move follows prolonged lobbying by different European broadcasters to persuade the DVB project to adopt their own standards for set-top boxes. The proposal to use Java has emerged as a compromise during talks.

The DVB, which has 200 members, including all leading public and commercial broadcasting groups in Europe, has already been influential in setting television operating standards in Europe, the US and Australia.

The organisation has no legal status, and cannot enforce decisions on broadcasters and manufacturers. However, a DVB standard is likely to influence national regulators wanting to ensure common systems for digital television.

At a recent meeting, the steering board of the DVB decided to approach Sun to ask if it could develop a DVB-Java operating software to be used as a base on which to run programmes and interactive services.

The steering board, which was planning to announce its strategy next month, has opted for Java after considering alternative systems used in current set-top boxes. These include Open TV, Mheg, and Canal Plus' MediaHighway.

The board wants to develop an open standard capable of running each of these systems – as well as Microsoft software – as "plug-ins" on top of Java software. This would provide an opportunity to integrate rival systems.

Microsoft's effort to establish Windows CE, an operating standard for electronic devices other than PCs, as dominant in digital television received a setback earlier this year when TCI, the Denver cable group, included both Java and Windows CE in set-top boxes.

Microsoft chose not to submit Windows CE as a DVB standard and is likely to emphasise that the new operating software will be compatible with Web TV, its subsidiary that sells set-top boxes integrating the internet with television.

A long-running dispute between Microsoft and Sun recently led Sun to take legal action to prevent Microsoft launching its Windows 98 PC operating system. Sun has accused Microsoft of trying to modify Java to reinforce Windows.

The DVB said it could not comment on decisions taken by its steering board which have not been announced.

Insurers to allow commission to settle Holocaust pay-outs

By John Authers in New York

US state regulators yesterday hammered out a deal under which five of the largest European insurers, including Allianz of Germany and Axa of France, would allow an international commission to determine how much they owed in unpaid insurance benefits to Holocaust victims.

The deal followed several days of negotiations in New York, involving commissioners for several of the largest states, including New York and California. Both sides have likened the role of the proposed commission to that of the committee chaired by Paul Volcker, former chairman of the US Federal Reserve, which is conducting a forensic audit of Swiss banks' dormant accounts.

The five insurers, which also include Zurich, Basler Leben and Winterthur of Switzerland, hope their involvement in the commission will be sufficient to deal with the demands of US lawyers who are suing them in a class action on behalf of Holocaust survivors.

However, lawyers leading the legal action will hold a press conference this morning in New York at which they are expected to attack the plan for a Volcker-style commission.

Ed Fagan, one of the leading lawyers for the plaintiffs, said: "The reason the insurers are going with the insurance commissioners is that they think that will give them an out. There will not be a duplication of the Volcker process in the insurance case."

He said the "memorandum of understanding" which the insurers signed yesterday would produce far less for plaintiffs and Holocaust victims than an out-of-court settlement to the lawsuit.

Generali, the largest Italian insurer, has still not signed the commissioners' memorandum, and opted last week to make an out-of-court settlement with the lawyers. Under this deal, the company agreed to pay $100m, and also to provide documents which the lawyers believe will give them valuable evidence against other insurance companies.

Allianz, the largest German insurer, said the announcement was a "major breakthrough", and that the commission would be the "best way to ensure justice for Holocaust victims". It pointed out that US class action litigation tends to take many years to resolve.

Chuck Quackenbush, California's insurance commissioner, said: "Today's announcement marks a significant breakthrough in our efforts to hold these insurance companies accountable."

Mr Quackenbush, who has held a number of hearings on the issue, said the commission would have 13 members. Six would be drawn from US insurance commissioners and Jewish organisations, while another six would be European insurers and insurance regulators.

CONTENTS

Posters urge passers-by to give to China's flood victims. More than 2,000 have died and damage is estimated to be $24bn. Picture: Reuters

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FT WEATHER GUIDE

Europe today

Northern France, the Low Countries and northern Germany will become overcast with rain spreading east, locally thundery. Most of western and central Europe will stay dry with some sunshine. Scandinavia will have sun and showers. Russia, Belarus, Ukraine and the Baltic states will have heavy, possibly thundery, showers. The south-east will be dry and sunny with just a few isolated showers around the Balkans. The Mediterranean will remain mostly sunny.

Five-day forecast

North-west Europe will be mostly dry but showers will threaten by the end of the week. Scandinavia and the north-east will be wet and windy but rain will turn showery at the weekend. Most other areas will have sun but the Balkans and central Mediterranean may have heavy thundery showers on Friday.

Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	42
Accra	Fair	28
Algiers	Fair	37
Amsterdam	Rain	17
Athens	Fair	35
Atlanta	Sun	36
B. Aires	Sun	17
B.ham	Cloudy	17
Bangkok	Thunder	32
Barcelona	Fair	30
Beijing	Fair	27
Belfast	Fair	17
Belgrade	Fair	23
Berlin	Shower	17
Bermuda	Cloudy	31
Bogota	Thunder	19
Bombay	Shower	33
Brussels	Rain	18
Budapest	Fair	21
C.hagen	Fair	17
Cairo	Sun	34
Caracas	Fair	32
Cardiff	Shower	20
Casablanca	Fair	25
Chicago	Fair	29
Cologne	Shower	20
Dakar	Fair	30
Dallas	Fair	37
Delhi	Shower	28
Dubai	Sun	41
Dublin	Fair	18
Dubrovnik	Sun	30
Edinburgh	Fair	17
Faro	Fair	27
Frankfurt	Shower	20
Geneva	Fair	24
Gibraltar	Sun	30
Glasgow	Shower	17
Hamburg	Shower	18
Helsinki	Shower	17
Hong Kong	Fair	31
Honolulu	Fair	32
Istanbul	Fair	30
Jakarta	Cloudy	33
Jersey	Cloudy	20
Johannesburg	Fair	19
Karachi	Fair	36
Kuwait	Sun	45
L. Angeles	Sun	29
Las Palmas	Sun	27
Lima	Cloudy	20
Lisbon	Sun	32
London	Rain	20
Lux.bourg	Thunder	19
Lyon	Fair	28
Madeira	Fair	26
Madrid	Fair	37
Majorca	Fair	32
Malta	Sun	31
Manchester	Fair	17
Manila	Thunder	34
Melbourne	Fair	15
Mexico City	Fair	28
Miami	Fair	34
Milan	Sun	28
Montreal	Shower	25
Moscow	Rain	15
Munich	Fair	21
Nairobi	Cloudy	25
Naples	Fair	32
Nassau	Thunder	33
New York	Fair	31
Nice	Sun	29
Nicosia	Sun	33
Oslo	Shower	19
Paris	Shower	24
Perth	Fair	25
Prague	Shower	16
Rangoon	Cloudy	30
Reykjavik	Shower	13
Rio	Fair	25
Rome	Sun	28
S. Frsco	Sun	24
Seoul	Cloudy	27
Singapore	Shower	30
Stockholm	Shower	15
Strasbourg	Shower	23
Sydney	Shower	18
Tangier	Fair	29
Tel Aviv	Sun	34
Tokyo	Shower	28
Toronto	Fair	28
Vancouver	Fair	20
Venice	Sun	28
Vienna	Fair	21
Warsaw	Rain	18
Washington	Fair	31
Wellington	Rain	12
Winnipeg	Fair	28
Zurich	Fair	24

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

COMPANIES IN THIS ISSUE

MARKET STATISTICS

US broker bids $2bn for rival

Marsh & McLennan's offer agreed by UK-based Sedgwick as sector consolidates

By Christopher Adams in London

Marsh & McLennan of the US, the world's biggest insurance broking group, yesterday extended its reach in the rapidly consolidating sector with a £1.25bn ($2.06bn) agreed bid for Sedgwick, its UK-based rival.

The deal will remove the last big UK broker with stock market quotation. Willis Corroon, Sedgwick's main rival, is to be acquired by Kohlberg Kravis Roberts, the US buy-out specialist, in a £951m deal announced last month.

Marsh & McLennan is offering 225p a share for Sedgwick, a 58 per cent premium to the group's closing price on Monday. Shares in the British broker, which have underperformed the stock market for several years because of lacklustre revenue and earnings growth, surged from 142½p to close last night at 213p.

The combined group will have revenues of £4.6bn, just over half coming from insurance broking, where competition has intensified as multinationals retain more risk themselves.

Marsh & McLennan, which also owns Putnam, the investment management group, is the biggest employee benefits consultancy in the world through its ownership of William Mercer. Sedgwick will strengthen that position.

More than 1,000 jobs are to be cut as the companies try to achieve cost savings of at least $150m, estimates which analysts described as conservative. Sedgwick employs 16,000 and Marsh 36,000. The brokers have overlapping operations in the US and UK, where Marsh & McLennan bought London-based broker CT Bowring 28 years ago.

Side by side: Marsh & McLennan chairman Ian Smith, left, with Sedgwick's Sax Riley yesterday Picture: Colin Beere

The deal will have to be cleared by European and US competition authorities. Analysts said customers may be concerned that the large number of takeovers in insurance broking is reducing choice.

Ian Smith, chairman of Marsh & McLennan, denied the acquisition of Willis Corroon by KKR had spurred its move. The two companies began talking to each other five months ago. Sedgwick has for some time expressed its desire for a merger partner that would extend its global reach and add to its fee-based consulting business, where growth is faster than in traditional broking.

"We felt we needed a partner," said Sax Riley, chairman of Sedgwick. "You need to be in touch everywhere the client is and we have always felt we needed to be bigger. We're trying to be not just an insurance broker, but a financial services business."

Speculation intensified that Aon, another big global broker and Marsh's main competitor, could react by topping KKR's bid for Willis Corroon. KKR said yesterday it had acceptances for 64 per cent of the shares in Willis and extended its offer until September 7.

Marsh said investors representing 40.7 per cent of Sedgwick's issued share capital had agreed to the offer, including the group's largest shareholder, PDFM. But some can accept new offers of at least 250½p. Marsh & McLennan was advised by JP Morgan, Donaldson Lufkin & Jenrette, and Cazenove, Sedgwick by Rothschild and CSFB.

Comment, Page 14

Philips and Lucent joint venture hit by losses

By Jeremy Gray in Amsterdam

Philips, the Dutch electronics group, yesterday warned of an unexpected loss at its troubled telephony joint venture with Lucent Technologies, and said the head of the business had quit following a delay in product launches.

Mike McTighe, president and chief executive of Philips Consumer Communications, will be succeeded on October 1 by Thom Swartsenburg, chief operating officer at PCC and a former Unisys executive.

Mr McTighe's departure follows a deep first-half loss for the PCC unit, including a Fl 250m ($124m) deficit in the first quarter. Philips said the shortfall narrowed in the second quarter, but declined to provide a profit or sales forecast for the unit for 1998.

The Dutch company, which had problems integrating the Lucent acquisition, previously said the unit would reach the profit threshold this year. But yesterday it said: "Recent developments have made it clear that a break-even situation for PCC is now unlikely to be achieved in 1998. This is mainly the result of delay in the introduction of products."

Philips declined to provide details of the products involved. However, PCC had planned to introduce lines of telephones over the next year, including a screen phone, a high-speed ISDN model and a range of sophisticated cordless phones.

Philips bought a 60 per cent stake and management control of Lucent's handset business in 1997. Christened PCC, the venture has suffered from deteriorating market conditions this year because of increased capacity and flat demand as regional rivals, particularly in Asia, raised output despite global overcapacity.

Philips played down Mr McTighe's resignation, saying "the first phase of integration of different corporate cultures is the most difficult". The company, Europe's largest consumer electronics group, said PCC would concentrate on "a more focused product with a more focused geographical spread".

Lucent, the minority shareholder, ruled out an early exit from the business, saying it was "convinced that the [joint] venture would be a success".

Philips shares closed up Fl 1.80 at Fl 157.20 on the Amsterdam stock exchange.

AMP offers $1.7bn for Australian insurer

GIO shares rise 28% after board rejects hostile bid

By Gwen Robinson in Sydney

AMP, Australia's largest life assurer and fund manager, yesterday launched the country's biggest takeover bid, with a A$3.01bn ($1.7bn) offer for GIO, a general insurer.

GIO's board last night rejected the bid and the stock market drove its shares up 28 per cent to close at A$5.22 on speculation that AMP might increase its offer if it was rejected by GIO shareholders.

The hostile bid came one day after AMP posted strong first-half net profits of A$603m in its first interim reporting period since the group demutualised late last year.

AMP said it would offer two AMP shares for every nine GIO shares or A$4.75 cash for each GIO share. Based on AMP's closing price on Monday of A$21.88, the scrip offer valued GIO at A$3.01bn, a 15 per cent premium to its Monday closing price of $4.07 and a 22 per cent premium to GIO's average share price over the past two weeks.

Nick Steffey, GIO managing director, said AMP's bid was "unwelcome and clearly inadequate".

"I believe our shareholders have much to look forward to under the current ownership and management structure. AMP's bid does not reflect the strength and prospects of GIO," he added.

Analysts said the bid undervalued GIO and predicted AMP would be forced to increase its offer to A$5 or A$5.50 a share, or at least one AMP share for every four GIO shares. AMP shares fell 19 cents in a rising market to end at $21.69. Analysts said a counter-offer was unlikely.

Since March, GIO's shares have fallen steadily, last week hitting A$3.90 after its announcement this month of a A$26.6m loss for the year to June. Analysts had forecast a net profit of about A$140m.

GIO's recent problems centre on its troubled reinsurance division, which generated losses of A$185m after an ill-fated venture into general aviation reinsurance and aviation catastrophe reinsurance. Crashes by Korean Air, Federal Express, Silk Air and China Air aircraft inflicted losses on GIO of A$60m.

But the group's general and life assurance operations are considered strong and profits are expected to rebound in the current year to June.

AMP chief executive George Trumbull said: "It is our intention to combine the general insurance and financial service businesses of the two companies and thereby realise substantial cost savings."

Mr Trumbull has said AMP had A$4bn of surplus capital and wanted to use new debt to make acquisitions of between A$5bn and A$8bn. He has also said AMP wanted to expand its general insurance operations in Australia.

Observer, Page 9
M&A wave continues, Page 13

Buoyant financial markets lift UBS first-half income by 5%

By William Hall in Zurich

UBS, Europe's biggest bank, increased its first-half net income before special factors by 5 per cent to SFr3bn ($1.9bn) as buoyant financial markets offset the loss of business resulting from July's merger with Swiss Bank Corporation.

UBS, which had warned that its 1998 earnings would fall by 10 per cent, said its first-half results were "well ahead of expectations" and it now expected a 1998 net profit around 10 per cent higher than last year's SFr4.8bn, before restructuring provisions.

Its shares closed SFr18 higher at SFr537 yesterday.

Marcel Ospel, chief executive, said the bank had reduced its "risk appetite" in more volatile financial markets, such as Russia, where the group had unrealised losses of SFr180m as a result of the upheavals of the last few weeks. However, he stressed that UBS expected to claw some of these back. UBS's total exposure in Russia is SFr446m.

Net operating income rose 14 per cent, to SFr14.5bn, inflated by SFr1bn from the sale of Banca della Svizzera Italiana. Net operating expenses rose 9 per cent, to SFr9.9bn, inflated by a SFr554m provision to cover the settlement of US legal claims relating to World War II. Mr Ospel said that, allowing for these factors, operating income rose 6 per cent and net operating expenses increased 3 per cent.

UBS is expected to generate considerable excess capital over the next three years if it meets its targets of roughly doubling its net income to SFr10bn-SFr11bn. One option would be for the company to buy the remaining 75 per cent of Swiss Life, which would cost around SFr10bn, based on current market prices.

UBS has said it is not interested in following Credit Suisse, which took over Winterthur last year, in becoming a bancassurer. However, John Leonard of Salomon Brothers said he had detected a softening in UBS's stance on this issue. Mr Ospel yesterday said he expected to make a decision by the fourth quarter.

Mathis Cabiallavetta, UBS's chairman, was more forthcoming on the other outstanding strategic issue for UBS – the need to expand its investment banking presence in the US. He said the group wanted to strengthen its US equities and mergers and acquisition business but there was "no question of UBS acquiring a "US investment bank".

Lex, Page 10

Lockheed in Mitsubishi alliance

By Alexandra Harney in Tokyo and Christopher Parkes in Los Angeles

Lockheed Martin, the world's leading defence contractor, has joined forces with Mitsubishi Electric, Japan's biggest military electronics maker, in what may signal further moves into overseas alliances by the US group.

Lockheed, forced recently by domestic antitrust authorities to abandon its merger with Northrop Grumman, said it had reached an agreement with Mitsubishi "to pursue business interests in Japan".

Thomas Corcoran, president of Lockheed's electronics division, which will co-ordinate the link, said more details of joint projects would be released this year and next.

The deal, following several months of talks, marks the first time the two groups have co-operated to develop defence technology, although they have supplied one another with parts in the past.

Mitsubishi would not specify what equipment would be manufactured, except to say that missiles and radar were under consideration.

According to Japanese media reports, projects included missile guidance systems, weapons controls, electronic warfare hardware and air- and ship-borne radar.

Mitsubishi already collaborates with Raytheon, one of Lockheed's leading US competitors in defence electronics, and has several deals with European and Asian groups to manufacture semiconductors.

For Lockheed, which has been given a clear warning from Washington's regulators that its US buying spree is over, the deal marks part-fulfilment of the board's ambitions to forge international alliances and reduce its dependence on US military budgets.

Other links mooted by the group have included a possible deal with Europe's Airbus Industrie to develop long-haul commercial airliners.

Mitsubishi shares rose Y7 yesterday to Y277. Lockheed shares were up $2⅛ at $98.

AIRLINES BELGIAN CARRIER WARNS OF EXPECTED CYCLICAL DOWNTURN AND COST-CUTTING PREPARATIONS

Sabena in first midway profit since 1950s

By Neil Buckley in Brussels

Sabena, the Belgian airline 49 per cent owned by Swissair, showed that its recovery programme was firmly on track yesterday, reporting its first net profit for the opening half since the 1950s.

Net profit to June 30 was BFr59m ($1.59m), against a loss of BFr1.01bn in the same period last year. Turnover jumped a quarter from BFr34.04bn to BFr42.76bn.

With airline performance usually stronger in the second half, which includes the summer holiday period, Sabena said it hoped to make a full-year profit, perhaps more than twice the level of the first half.

That would put it ahead of the break-even target set for 1998 by Paul Reutlinger, the former Swissair marketing manager put in as Sabena chief executive in 1996.

However, the airline warned that it expected a cyclical downturn in the medium term, and was preparing a cost-cutting programme, "fit for the cycle", with management consultants McKinsey.

The results are an apparent vindication of Mr Reutlinger's strategy, which included a hard-won agreement with the unions in 1996 aimed at cutting operating costs by BFr4.7bn a year. Some BFr2.7bn was to come from operational changes, with BFr2bn from the workforce, through a two-year wage freeze, more flexible working, and 500 voluntary redundancies out of the 9,500 workforce.

They also support the Belgian state's decision to sell a 49 per cent stake in the national airline for $207m to Swissair in 1995.

The latest figures come only 18 months after Sabena announced a full-year loss for 1996, prompting speculation that Swissair might withdraw from its investment unless results rapidly improved.

As well as cost cuts, Sabena admitted it had benefited from low fuel prices, and from buoyant passenger traffic which all European airlines are enjoying.

But the airline said it had achieved a rate of growth higher than the market as a whole because of the development of its long-haul network, including new destinations such as Newark, Montreal and São Paulo, and its alliance with Swissair, Austrian, and Delta Air Lines.

Total passenger numbers increased 32 per cent in the first half – from 3.09m to 4.08m – but with growth particularly strong in the long-haul sector, passenger kilometres travelled rose 39.6 per cent. With capacity growing more slowly, at 31.4 per cent, total occupancy rates improved from 61.7 per cent to 65.5 per cent.

Turnover from the airline business rose 31.3 per cent.

SEC filings give insight to Goldman's operations

A picture of how the firm makes its money is beginning to emerge, report **Tracy Corrigan and William Lewis**

Goldman Sachs' initial public offering, slated for November, looks likely to attract unprecedented interest from global investors.

On Monday, the investment bank confirmed in a filing to the Securities and Exchange Commission that the sale of 10-15 per cent of its stock is to be structured as a global offering to investors in the US, Europe and Asia.

But while Goldman is one of the world's best-known investment banking brands, a detailed picture of how the firm makes its money – and therefore how it is likely to be valued by investors – is only just starting to emerge.

Monday's filing with the SEC, the US regulator, provided evidence of Goldman's pre-eminent position in investment banking, comprising mainly financial advisory work and securities underwriting.

The firm's revenues from investment banking more or less match those of its two "bulge bracket" rivals, Merrill Lynch and Morgan Stanley Dean Witter.

But Goldman is particularly strong in mergers and acquisitions, where the highest profit margins are made.

Moreover, some analysts believe that Goldman's strong franchise in this area will allow it to hold on to high margins in the face of pricing pressures in the sector.

World's three largest investment banks

	Net revenues[1]	Non-US revenues	Investment banking revenues	Asset management and services	Trading and principal investment revenues	Staff pay and benefits to revenue	Staff[3]	Pre-tax profits
	$bn	$bn	$bn	$bn	$bn	%		$bn
Merrill Lynch	15.669	4.4	2.749	2.789	3.769	51	60,300	3.050
Morgan Stanley Dean Witter	14.833	note 5	2.694	2.476	3.854	41	49,800	4.274
Goldman Sachs	7.447	2.34[6]	2.587	1.934[4]	2.926	42[2]	11,440	3.014

All data for 1997 financial year 1. Total revenues less interest expense 2. Excludes partners' compensation 3. As of end of second quarter 1998 4. Includes securities services 5. Not disclosed 6. European and Asian revenues. Source: companies

In trading, Goldman makes less money than either Merrill or Morgan Stanley. Yet paradoxically it is more reliant on trading income, because it makes up a greater proportion of total revenues. The reason for this is because Merrill and Morgan Stanley have one – or in Morgan Stanley's case two – big businesses which Goldman does not.

Both run large domestic retail brokerages which are relatively expensive businesses to maintain, requiring in both cases an army of more than 10,000 brokers and a network of retail offices. Furthermore, their margins are lower than in investment banking.

Morgan Stanley also owns the Discover credit card business, which is currently depressing its return on equity.

But while Goldman appears more profitable because it has no retail brokerage or credit card business, there is a price to pay in cyclicality. In a bear market, Morgan Stanley and Merrill would both enjoy the cushion of stable revenues from these businesses.

This greater stability of earnings is highly valued by investors.

One reason why Salomon Brothers failed to survive as an independent investment bank was that its stock valuation was severely harmed by the perception that it was over-reliant on proprietary trading and therefore its earnings were highly volatile.

While Goldman's earnings are clearly more stable than the old Salomon's, the severity of the hit taken by Goldman in 1994 – the last bear market – suggests that Goldman could still be vulnerable.

The issue of Goldman's difficulties in 1994 is addressed in some detail in Monday's filing.

According to the filing, the firm "significantly reduced the size and concentration of positions, strengthened risk management policies and accelerated the development of new, more sophisticated risk management programmes" as a result of the "significant decline in net revenues" it suffered in 1994.

It now maintains lower "value at risk" levels – a measure of net exposure to market movements – than in 1994.

Another area where Goldman's competitors may enjoy greater earnings stability is asset management.

Goldman's asset management business has been growing rapidly in recent years, primarily through organic growth. As of May 1998 Goldman had $165bn of assets under management.

The firm says that it is currently achieving net asset inflows of $115m each business day, one of the highest rates in the industry. However, the firm still ranks behind Merrill and Morgan Stanley in terms of assets under management and the revenues it earns.

Merrill recently acquired Mercury Asset Management, the leading UK fund manager, and many analysts believe that Goldman will seek to do similar deals once it has gone public.

Its SEC filing states that "while we expect most of our growth will continue to be organic, public ownership will give us a currency with which we may choose to pursue strategic acquisitions".

Analysts suggest that fund management acquisitions are likely to be outside the US, building on Goldman's international strengths. It earned 31 per cent of its total 1997 net revenues from Europe and Asia.

Merrill says that it earned 28 per cent of its net revenues last year from outside the US. Morgan Stanley failed to give investors a geographical breakdown.

Goldman itself stresses that geographical comparisons are somewhat arbitrary because it and other firms have flexibility in deciding where to book profits.

Nevertheless, with further SEC filings due by Goldman later this year, the spotlight on the firm's business in and outside of the US, is likely to intensify.

Lex, Page 10

Sunbeam reviews options scheme

By Richard Waters in New York

Sunbeam, the struggling maker of household appliances, has become the latest US company to ease the terms of its employee share option plans – a controversial practice that has become increasingly common in the more volatile stock market of recent months.

Similar steps have been taken by a number of other companies that have seen their shares fall sharply, prompting complaints from shareholder activists that company executives do not always face the same losses as other shareholders when stock prices go down.

Sunbeam representatives yesterday defended the changes, which they said would not benefit the senior executives who presided over the company's share price collapse this spring.

Charles Elson, a Sunbeam director and corporate governance expert, said the move was a valid way of retaining incentives for lower-level staff and the company's new management team. "From a corporate governance standpoint, repricing is bad when it rewards the people who caused the problem," he said.

Adjusting terms of stock option plans has been most common among technology companies, which have relied heavily on options as a way of rewarding staff and which have also experienced more volatility in their share prices.

However, in the uncertain stock markets of recent months, the practice has become more widespread.

Cendant, whose shares collapsed after disclosure of an accounting fraud, said last month that it would lower the exercise price on share options granted to its middle managers – though senior executives would not be given any respite.

Under former chairman Al Dunlap, Sunbeam's share price soared to a peak of $53 earlier this year. A weak trading performance and uncertainty over Sunbeam's accounting practices eventually dragged the price as low as $5¾, leading to Mr Dunlap's dismissal from the company.

While granting large numbers of share options to Mr Dunlap and his closest lieutenants, Sunbeam also introduced a company-wide stock option plan last year. Exercise prices are as high as $40, according to the company.

On Monday, as part of a broad-ranging restructuring, the company said that it had eased the terms of its option plans. Employees could turn in their existing options for a lesser number of options with an exercise price of $7, the company said.

Vattenfall says drop due to rain

Vattenfall, the Swedish state energy company, yesterday blamed heavy rains for a fall in first-half pre-tax profits from SKr3.78bn to SKr2.98bn ($362m), agencies report from Stockholm.

It said high levels of water in the hydro-electric system because of the wet weather caused excess capacity, forcing a cut in prices to the consumer.

Vattenfall said operating profit amounted to SKr3.74bn, against SKr4.83bn. Net sales fell 5 per cent to SKr14.25bn.

But the company warned: "The result for the whole of 1998 is expected to be lower than in 1997."

Vattenfall said direct sales to customers and electricity exchanges for the period amounted to 41.9 terawatt-hours, against 41.6TWh last time.

It said electricity supplied rose 0.7TWh to 48.1TWh, of which 42TWh was generated internally.

It produced a total of 15.6TWh of hydro power and 26.4TWh of nuclear power, compared with last year's 17.8TWh and 24.1TWh, respectively.

Canadian banks beat forecasts

By Scott Morrison in Toronto

Strong performances in retail and commercial banking have enabled Bank of Montreal and Bank of Nova Scotia, Canada's third and fourth largest, to exceed revised earnings forecasts in the third quarter.

The results helped drive up financial shares and contributed to a more than 1 per gain on Toronto's stock exchange, which has been under pressure recently partly on concerns that many of Canada's top banks would be unable to maintain their strong growth patterns of the past four years. Toronto's financial services index has fallen more than 20 per cent in the past month.

Canadian bank earnings forecasts have been revised downward by as much as 7 per cent in recent weeks after the Canadian Imperial Bank of Commerce, the nation's largest, warned its third-quarter results would be significantly lower than expected because of the weak capital markets.

Bank of Montreal, however, reported net income of C$378m (US$244m) for the third quarter ended July 31, compared with C$372m last time. This worked out at C$1.31 per share, the same as last year.

Recently revised forecasts suggested the bank would earn C$1.23 per share.

Bank of Montreal said its results were buoyed by business volume growth, particularly in retail segments, as well as strong performance in corporate lending and treasury products. The results, however, were hit by the effect of weak capital markets.

Earnings from outside Canada were down to C$167m, from C$221m, in part because of a C$16m loss from Grupo Financiero Bancomer, the Mexican institution in which Bank of Montreal holds a minority stake.

Bank of Montreal shares were up C$1.15 to C$62.55 at midday.

Bank of Nova Scotia reported net income of C$358m, or 68 cents per share, for the quarter. That compares with earnings of C$384m, or 75 cents, when the bank had unusually high securities gains. Analysts had expected earnings of 67 cents per share.

The nation's fourth largest bank said its retail, commercial and corporate banking results were higher in the quarter, but investment banking earnings fell from the previous period.

The shares rose C$1.05 to C$30.25 at mid-session.

Foreign orders help to lift Linde

Linde, the diversified German industrial group, yesterday unveiled a 17 per cent increase in first-half pre-tax profits, to DM332.1m ($185m), on sales ahead 16 per cent at DM4.85bn, AFX reports from Frankfurt.

The strong gain prompted the company to forecast full-year growth in sales of DM10.8bn, a 13 per cent increase.

Foreign activities, as well as a recovery in Germany's economic activity, contributed to the first-half improvement, it said.

Domestic orders rose from DM1.56bn to DM1.77bn, while foreign orders climbed from DM3.24bn to DM3.8bn.

Orders in hand reached a record of DM7.319bn, the company said.

Linde's plant construction division was strong in spite of the Asian crisis, with sales surging nearly 37 per cent to DM630m and new orders soaring more than 50 per cent to 1.25bn. The division expects full-year sales at DM1.7bn, compared with DM1.4bn last year and orders at more than DM2bn, against DM1.8bn.

The materials handling division attributed its increase in sales to improved demand across Europe. Sales in the division were DM2.24bn, up from 2.1bn last year, while new orders were up 17.8 per cent at DM2.44bn.

Linde said the division reached double-digit growth rates in almost all European countries, especially France, Italy and Spain. Growth was also strong in its US unit, but demand in Asia fell.

The refrigeration technology unit reported sales of DM618m from DM455m last year. Sales were strong in the UK, France and Hungary, with strong growth potential in supermarket facilities in Latin America.

US banks believe they are scapegoats for global volatility

By John Authers in New York

US bank stocks were in turmoil yesterday after suffering their sharpest decline of the decade. In the past five weeks, the Philadelphia Stock Exchange/Keefe, Bruyette & Woods bank index, the benchmark for the sector, has dropped almost 21 per cent, and by the end of last week it stood below January's level.

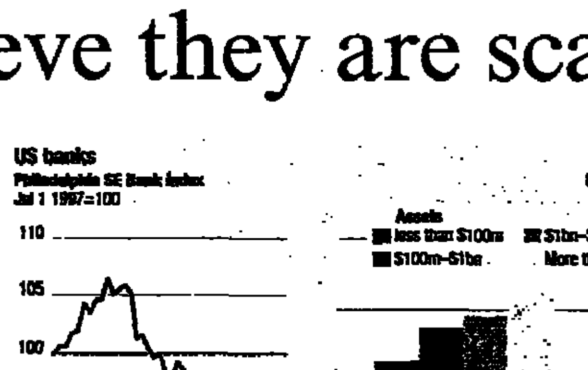
A rally yesterday morning still left many banks more than 20 per cent below their highs.

The decline shows a shift in sentiment since spring when a series of huge deals were agreed. In April, Travelers merged with Citicorp, in a deal which valued Citicorp at the time at $82.5bn; while NationsBank merged with BankAmerica for a price of $66.6bn; and Banc One of Ohio agreed to buy First Chicago NBD for $29.5bn. In June, Norwest of Minneapolis announced it was buying Wells Fargo of San Francisco for $31.17bn.

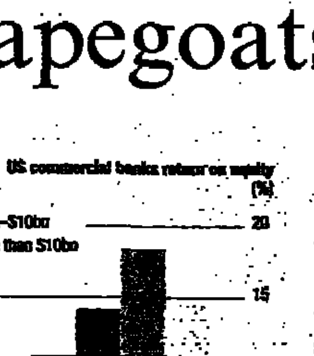
Thrifts, which make their money from mortgage lending and savings deposits, also saw heavy consolidation, with Washington Mutual, the nation's largest, agreeing to buy HF Ahmanson, the second largest, for $9.9bn.

Shares in all these companies have plummeted. The market's judgment on BancOne, down 27 per cent since the deal, and Washington Mutual, down 28 per cent, has been particularly savage. Analysts suggested that BancOne had alienated the market by not keeping investors fully informed.

Alarm over the international economy and the bond market triggered the sell-off. Banks traditionally make their money on the "spread" between short-term interest rates, and higher long-term interest rates. Heavy buying of long-dated bonds has narrowed the spread on the bond market. Derek Sword, analyst at Keefe, Bruyette & Woods, says thrifts and other home equity lenders have suffered badly as they are seen as being exposed to the yield curve.



Source: Datastream/ICV; IMF



Recent market reverses also led to nerves over non-interest fee income, from activities such as capital markets, fund management and investment banking, which have boosted many larger banks in recent years.

Developments in Russia and other emerging markets hurt sentiment towards the largest international banks, such as Citicorp and Chase Manhattan. Several analysts believed this had been overstated. Thomas Hanley, banking analyst at Warburg Dillon Read, pointed out that US banks' total exposure to Russia, at $8.8bn, is limited, particularly as 87 per cent of the amount owed will mature in less than a year.

The Federal Reserve reported that demand for loans from small companies had fallen during the second quarter, for the first time in years, and that competition was forcing banks to accept lower spreads, or profit margins, independently of developments in the bond market.

The Office of the Comptroller of the Currency, a division of the Treasury, pointed out that the returns on equity generated by the largest banks, with assets of more than $10bn, had dropped year on year.

It found that net interest income as a proportion of assets was falling, while the ratio of non-interest expenses to total revenues, banks' "efficiency ratio", was rising for the first time in more than a decade. For the largest banks, expenses accounted for 64.2 per cent of operating revenue in the first quarter of this year, up from 61.6 per cent over the year. Expenditures to fix the "Year 2000" computer problem may have affected this.

Nancy Wentzler, of the comptroller's office, said that the reliance on cost control – often achieved through branch closures after mergers – as a source of net income had been a "major story" for five years. But she added: "Unfortunately, the story may be developing a new plot. It would appear that this source of profits for banks may now be curtailed."

Some analysts see the sell-off as a buying opportunity. Mr Hanley, a long-term "bull" on the sector, continued to predict growth in earnings of 13 per cent for the third quarter – in line with banks' results for the second quarter. With large and diverse super-regional banks such as First Union and Fleet Financial selling at 11.7 times and 13.6 times his estimate of next year's earnings respectively, he was still urging investors to buy bank stocks.

Lex, Page 10

NEWS DIGEST

INSURANCE

Hanover takes over Clarendon for $500m

Hanover Reinsurance is buying Clarendon Insurance of the US for $500m, in a move the German company said would make an immediate contribution to profits and reduce business volatility.

Clarendon, for which Hanover Re is paying cash, has premium income of around $1.3bn, expected to grow to $1.5bn in 1999. This will raise Hanover Re's premium income from around DM8bn to more than DM11bn ($6.1bn).

Clarendon specialises in programme business, involving tailored policies for niche and non-standard markets. Pre-tax profits were $44.8m last year, with net income at $27.3m; return on equity was 17.4 per cent before tax and 10.6 per cent after tax.

Wilhelm Zeller, Hanover Re chairman, said the acquisition would lift its earnings per share by DM1 next year. Last year, earnings per share were DM6.80, with the company aiming at 10 per cent annual growth which would put the 1999 pre-acquisition figure at around DM7.50.

Mr Zeller said US programme business would become the fourth strategic area for the German company next to reinsurance in the property and casualty, life and health, and financial sectors. With the addition of Clarendon, the share of cyclical, highly competitive and volatile property and casualty reinsurance in Hanover Re's worldwide group premium income would fall to less than 50 per cent from 68 per cent.

Clarendon is owned by its management, with 56 per cent of the shares, and Kansa International of Finland.
Andrew Fisher, Frankfurt

NETHERLANDS

Vedior beats price pressures

Vedior, the Dutch temporary employment and cleaning agency, posted a 22 per cent rise in first-half earnings yesterday, in spite of price pressures in its main European markets.

Net profit advanced to Fl 93m ($46m) during the six months on sales of Fl 4.09bn, a rise of 21 per cent. Better results from all divisions boosted its profit margin before interest and tax from 3.3 per cent to 3.7 per cent, not far from the company's target of 4 per cent by 2000.

In his first press conference as chairman, Gert Smit said that boosting profits took priority over increasing market share in the first half. Following its June demerger from Vendex, the Dutch retailing and services group, Vedior aims to lift its market share to 20 per cent in the Netherlands, Belgium, France and Spain from the 8 per cent now, through inner growth and acquisitions. The group also plans to strengthen its German operations and to enter the UK, he said.

Its French division, which accounts for more than half of group business, showed a 27 per cent advance in sales. However, Mr Smit said price increases and capacity constraints at its French temping unit, VediorBis, "cost us a few big clients".

In spite of margin pressures in France and other countries, Mr Smit forecast a "strong" rise in net income for the year, implying growth of 20-30 per cent. The shares closed at Fl 63, up 3.2 per cent on the day.
Jeremy Gray, Amsterdam

MALAYSIA

Maybank reports 96% decline

Maybank, Malaysia's top commercial banking group, yesterday reported a 96 per cent plunge in net profit to M$129.6m (US$31m) from M$2.98bn for the year ended June 30, sharply worse than expected. Analysts had forecast net profits of M$300m-M$500m, and predicted investors would react negatively when the market reopens.

"It has been a challenging year," said Amirsham A. Aziz, managing director. "We have done our level best."

Malaysia's banking sector has been hit hard by the regional crisis, which is pushing the economy into recession. Maybank is among the country's most prudent banks, so analysts were pleased much of the drop in net profit was to provide for rising non-performing loans.

Economists predict such loans will account for 25-30 per cent of total banking system loans at the peak of the crisis. Maybank's non-performing loans were 4.46 per cent of total loans, up sharply from 1.40 per cent in the year-earlier period. Analysts say that is far lower than average.

Mr Amirsham said Maybank was expending considerable effort to control its non-performing loans and predicted the ratio to total loans would remain a single digit at year's end. Maybank was in talks with Danaharta, the institution Malaysia is establishing to buy the non-performing loans and assets of troubled financial institutions, he added.

The bank set aside M$2.91bn in loan loss and provisions for future losses, up drastically from M$664.4m. Maybank's operating profit improved 20.6 per cent to M$3.46bn. **Sheila McNulty, Kuala Lumpur**

SOFTWARE

Baan and JDA in joint venture

Baan, the Dutch enterprise software company, is forming a joint venture with JDA Software of the US, to offer integrated enterprise and retail software to larger retailers.

JDA, which specialises in retail software for mid-sized companies with revenues of about $1bn or less, says larger retailers have traditionally built their own systems rather than buy packaged products. However they hope to change that with the Baan venture.
Roger Taylor, San Francisco

SWEDEN FIRST-HALF PROFITS AT MERGED BANK RISE TO SKr4.34bn ● HANDELSBANKEN INCREASES 16 PER CENT TO SKr4.38bn

Synergy savings aid FöreningsSparbanken

By Tim Burt in Stockholm

FöreningsSparbanken yesterday reported a solid increase in underlying profits after enjoying the first synergy savings of last year's merger of Sparbanken Sverige – known internationally as Swedbank – and Föreningsbanken.

The bank, one of Sweden's largest commercial lenders, saw first-half operating profits rise to SKr4.34bn ($527m) from SKr3.75bn last time, even though total revenues were flat at SKr10.3bn.

"The first half of the merger process has now been successfully completed according to plan," said Reinhold Geijer, chief executive. "Now, in the second half, we can concentrate fully on the future and business development."

He was speaking after the bank announced that staff numbers would fall by some 3,000, or almost 25 per cent, up to 1999.

Since the banks merged last year, more than 1,350 employees have sought redundancy.

Charges associated with such job losses and branch consolidation led to one-off "changeover costs" of SKr472m in the six months to June 30.

After including restructuring items and SKr700m of non-recurring income, operating profits rose more modestly, from SKr3.68bn to SKr3.87bn.

Nevertheless, the bank said it was a creditable performance, given that net interest income fell 12 per cent to SKr5.84bn. At the same time, net commission income rose only 2 per cent to SKr2.11bn.

That flat performance was partially offset by sharply lower loan losses, which fell more than 30 per cent to SKr710m, and a 20 per cent decline in "problem loans" to SKr5.52bn.

Earnings per share rose from SKr7.56 to SKr7.79. The bank's shares fell SKr7 to SKr219.50.

The most commonly traded A shares in Svenska Handelsbanken, by comparison, fell SKr6 to SKr355.50, even though it announced a 16 per cent increase in first-half profits.

Handelsbanken reported pre-tax profits up at SKr4.38bn from SKr3.78bn after total interest and commission income increased to SKr8.77bn from SKr7.66bn last time.

The bank, which claims to be the most profitable lender in the Nordic region, said return on equity had increased from 20.5 per cent to 22 per cent.

Arne Martensson, chief executive, said the improvement had been fuelled partly by increased mortgage lending, which rose 20 per cent following contributions from Stadshypotek, the mortgage lender acquired for SKr23bn last year.

"Secondly, the average volume of bank loans increased by as much as 31 per cent," he added.

Earnings per share rose from SKr12.38 to SKr14.48.

Toyo in alliances with UK and US groups

By Gillian Tett in Tokyo and Jane Martinson in London

Toyo Trust, one of Japan's largest banks, yesterday announced strategic alliances with two foreign asset management companies.

In the UK, Baillie Gifford, an Edinburgh-based asset management concern, will advise Toyo clients on European investments. In the US market the Japanese bank will co-operate with Wellington Management.

The alliances aim to allow Toyo Trust to offer retail and corporate customers in Japan a range of European and US investment products after Japanese trust banks are permitted to enter the sector later this year as part of the country's "Big Bang" financial reforms.

Under the terms of the alliance Toyo Trust will send about five fund managers to Baillie Gifford and Wellington Management's headquarters in Edinburgh and New York respectively. The three companies will form a joint advisory board.

The Baillie Gifford alliance is expected to involve about Y250bn ($1.74bn) initially.

Gavin Gemmell, senior partner at the company, said: "To some extent, this is what we have been hoping for for a number of years."

The company, which has had an alliance with Toyo for 10 years, will advise new Japanese clients under the terms of the deal as well as earning advisory fees.

Mr. Gemmell said yesterday that the partnership, which has £14bn in assets, hoped to build on the alliance over the coming years.

Toyo Trust has some Y8,000bn securities investments in trust assets, of which about Y2,000bn is in foreign securities.

Yesterday's announcement is the latest in a flurry of alliances between Japanese and non-Japanese financial groups in Japan over the past year.

Most are little more than product alliances but some entail more extensive co-operation, such as the deal between Nikko Securities and Travelers group which could entail Travelers purchasing up to 25 per cent of Nikko.

These alliances have been partly triggered by Japanese companies' desire to rapidly improve their financial skills. In the retail mutual fund market, for example, many Japanese companies are keen to offer a new range of overseas investment products.

Foreign companies have been attracted to Japan by hopes that Big Bang reforms will give them greater access to the country's estimated Y1,200,000bn pool of savings.

Toyo Trust is considered one of the middle ranking trust banks. Its share price yesterday closed at Y497, some Y8 down on the day and 48 per cent below their year peak in February.

AMP continues M&A wave with GIO bid

By Gwen Robinson in Sydney

AMP's A$3.01bn (US$1.7bn) bid for GIO is the latest in a wave of mergers and takeovers in the Australian and New Zealand insurance and fund-management sectors.

Rapid growth in Australia's pension funds has been fuelled by recent changes to the government's compulsory superannuation scheme, which now requires employers to offer a broad or unlimited choice of fund managers to employees.

Last week, Colonial, the Australian life insurance and financial services group, agreed to buy the Australian and New Zealand insurance and fund-management operations of Prudential of the UK, for A$1.35bn. In May, Colonial bought the Australian operations of Legal & General, the UK insurer, for A$892m.

For AMP, which listed on the Australian and New Zealand stock markets in June, the GIO takeover – if successful – would be the largest in a string of acquisitions and partnerships made under the management of George Trumbull, who became chief executive four years ago.

AMP's A$920m acquisition in March of Henderson, the UK fund manager, increased the group's funds under management to more than A$172bn and positioned it as Australia's largest funds manager. Among other overseas assets, AMP also owns Pearl Assurance of the UK, and has a 50 per cent stake in Virgin Direct, a joint venture with Richard Branson's Virgin group.

The GIO acquisition would give AMP a badly needed edge in the Australian and New Zealand general insurance markets, where it is relatively weak and faces strong competition from other large financial services groups.

Mr Trumbull said yesterday that the GIO purchase would lead to substantial cost savings. "Combining GIO with AMP will provide the scale to quickly achieve efficiencies necessary to compete more aggressively with domestic and international competitors."

The group said it planned to combine the general insurance and financial services businesses of the two groups, but would review and possibly sell GIO's loss-making reinsurance operation.

In a further complication, the Australian Competition and Consumer Commission, the country's anti-trust watchdog, said it would have to investigate AMP's bid. If the bid was accepted by GIO shareholders, the ACCC would determine whether the takeover of GIO was anti-competitive. If the deal was deemed to be in breach of its industry competition standards, the body could block the takeover.

George Trumbull: purchase would lead to big cost savings

First Pacific sells San Miguel holding

By Justin Marozzi in Manila and Louise Lucas in Hong Kong

First Pacific, the Hong Kong conglomerate, yesterday sold its entire 2 per cent stake in San Miguel, the Philippine food and beverage group, for 3bn pesos ($69m).

The buyer was not disclosed, but the divestment prompted renewed speculation in Manila that Lucio Tan, the Chinese-Filipino tycoon, might be behind the purchase. San Miguel's B shares plunged 11 per cent, to 41 pesos.

First Pacific said it decided to quit San Miguel after its plans to acquire a larger stake were blocked.

Speculation that Mr Tan was involved in yesterday's deal was intensified by First Pacific's use of Exchange Capital – the joint-venture partner of Jardine Fleming headed by Luis Virata, a close ally of Mr Tan – to execute the deal. The original purchase was handled by ING Barings.

Mr Virata is a nominee of Mr Tan on the board of Philippine Airlines, another group owned by the tycoon. He is also close to President Joseph Estrada, who is considered more sympathetic to Eduardo Cojuangco, chairman and chief executive, in his long-standing ownership dispute over a 48 per cent stake in San Miguel.

The stake was sequestered in 1986 by the administration of Corazon Aquino, which argued that Mr Cojuangco had acquired it illegally.

First Pacific said it became "abundantly clear" it was not going to obtain control of San Miguel after it secured a foothold by buying the stake last year.

The shares were sold at a 20 per cent premium to yesterday's closing price, but the turmoil in Asian stock markets and currencies means First Pacific earnings will be dented by the deal. Last year, provisions of $32.4m were booked against long-term investments, and the bulk of this was attributable to San Miguel, First Pacific said.

Noel Reyes, head of research at Anscor Hagedorn Securities, a Philippine brokerage, said he believed Mr Tan – who owns Asia Brewery, San Miguel's biggest rival – was now positioning himself to acquire the 20 per cent stake in the group that a recent court ruling allowed Mr Cojuangco to vote, despite the fact that the sequestration issue remains unresolved.

B-shares in San Miguel have now underperformed the market by more than 12 per cent in the past two weeks. Brokers said negative sentiment was increased by reports that Mr Cojuangco was seeking to drop San Miguel's bylaws requiring management to shareholder approval for certain divestments and acquisitions.

Observer, Page 9

Japan retailers take late evasive action

By Alexandra Harney in Tokyo

Japan's retailers are being squeezed by pressures on two fronts: consumers' reluctance to spend and mountains of bad debt.

Retail sales are down and retailers across the country are closing stores and selling subsidiaries in a desperate attempt to improve their balance sheets.

Earlier this week an industry association reported that sales at department stores fell 3.8 per cent and supermarket sales 1.4 per cent year-on-year in July, following more than a year of decline.

Even food sales – in a month when corporate gift-giving usually drives brisk sales of beer and rice cracker sets – slid 5.8 per cent at department stores.

It has not been an easy summer for supermarkets in particular. Daiei, the country's largest supermarket chain, said last week it would sell properties in Japan and Hawaii because it had failed to bolster sagging profitability by reducing its debt levels.

Earlier this month, it halted construction of a new headquarters building in Tokyo because of insufficient funding.

The moves are Daiei's first significant revision of a plan launched last year aimed at reducing the group's interest-bearing debt burden from Y2,600bn ($18bn) to Y1,600bn in five years.

Industry analysts estimate the retailer's debt to equity ratio could be as high as 23, as a result of aggressive expansion in the late 1980s and early 1990s.

The sharp decline in stock and land prices recently has not helped the balance sheets.

Daiei failed to generate even half the revenues it had planned from the sale of shares in its subsidiaries, including Daiei Photo, the photo service company that was listed on the over-the-counter stock market earlier this month, and from internal sources.

Some sales have been more successful. The retailer, which posted Y1.2bn in profits on Y3.2bn in sales in the year that ended in February, has sold DIC Finance, its consumer finance subsidiary, to Associates First Capital, a financial services company owned by Ford Motors, the US car group, for Y130bn.

The group also expects to gain Y4bn this year from the sale of properties in Japan and Y400bn from the listing of shares in Lawson, the convenience store chain it operates, on the Tokyo stock exchange.

Up until now, however, the group had not planned to sell the Alamoana Shopping Center in Hawaii.

Analysts were sceptical about the group's new strategy to address its balance sheet problems.

"These are not miraculous or even particularly insightful conclusions at this late stage in the game. These are things they should have been thinking about three or four years ago," said Byron Gill, industry analyst at Salomon Brothers Smith Barney in Tokyo.

Although Daiei, like most Japanese retail chains, has been hit by the slump in consumption this year, its real problem was bad debts accumulated by unprofitable subsidiaries, analysts said.

Daiei is also involved in hotels, sports facilities and property.

Seiyu, a rival supermarket chain that is suffering from similar bad loan problems, has been trying to dispose of Tokyo City Finance, its loss-making subsidiary.

The problem has been exacerbated by banks that have continued to lend to retailers at interest rates that do not accurately reflect the groups' financial risk, analysts said.

Daiei has four main lenders, which is unusual for Japanese companies that typically borrow from one or two financial institutions.

But analysts were doubtful whether the current situation would last much longer. As the credit crunch at Japanese banks worsened, groups such as Daiei would be unable to sustain their heavy borrowing, and would be forced to make further cuts.

"For Daiei, it really depends on how quickly things go bad at their banks. Even if they sell all their non-performing assets, it isn't clear whether they are going to survive as a retailer," said Mr Gill.

New World loan warning

By Louise Lucas in Hong Kong

New World Infrastructure, one of Hong Kong's biggest investors in China, may be forced to shelve new investments and scrap existing ones in the mainland if it fails to secure renminbi financing, the company said yesterday.

The move highlights growing concern among infrastructure investors in the mainland, who are seeking to match their renminbi-denominated revenue streams with loans in the same currency. This is largely to avoid being left with big US dollar exposure in the event of a devaluation.

New World Infrastructure, a unit of New World Development, the Hong Kong property developer, is reviewing its finance arrangements at a time when China's economic slowdown and massive flooding are taking a toll on its investments there.

The closure of a highway to Wuhan airport cost it some RMB 56,700 ($6,800) a day in lost revenues, while traffic volume on the Wuhan Bridge fell 13 per cent in July from a year earlier.

These concerns, added to fears of a possible currency devaluation (repeatedly denied by Beijing officials), are prompting New World Infrastructure and its peers to raise loans in renminbi.

Their endeavours, however, have been frustrated by the lack of credit – which remains tight in China, in spite of moves to cut interest rates and lower reserve requirements.

New World Infrastructure has high gearing and US dollar debt of $890m, according to Warburg Dillon Read, and outstanding commitments of another $500m over the next year.

Matsushita hit by tough domestic market

By Alexandra Harney

Matsushita, the Japanese electronics group, yesterday said tough conditions in the domestic market and a tax charge contributed to a 58 per cent decline in after-tax profits in the first quarter of its financial year.

The group, which markets its products under the Panasonic, National, Quasar and Technics brands, reported earnings of Y11.1bn ($77.1m) for the three months from April, against Y26.3bn last time. Strong overseas sales offset the downturn in the domestic market, with turnover slipping only 1 per cent, to Y1,875.8bn.

Sales of consumer electronics products improved 2 per cent, especially in the US and Europe, the group said. Digital video disc (DVD) players and audio equipment increased 12 per cent to Y465bn, but the sharp decline in the domestic home-appliances market contributed to an 8 per cent drop in sales in the division.

The industrial products arm was hit by lower prices of computer equipment and cellular phones. Sales of these products fell 2 per cent to Y695bn. Component sales were hurt by the collapse in the conductor market, falling 5 per cent to Y367bn.

The group predicted continued difficulties in the rest of the year. Earlier this summer, Matsushita lowered its earnings forecast from Y38.5bn to Y30bn, 33 per cent below last year's profits. The group expects a 1 per cent drop in sales to Y3,870bn.

"We must be very cautious about the months around September of this year. I am very concerned about the so-called soft landing in the economy... The first half of next year will be difficult, and the next two years will be very tough," said Susumu Ishihara, Matsushita director of public relations.

Analysts, who had predicted a 25 to 50 per cent drop in earnings, were doubtful about the group's prospects in the short term, despite its recent restructuring. Increasing price competition in the global electronics market and weak consumer demand in Japan would dent profitability this year, they said.

Although the group expected higher sales of personal computers, car navigation systems and DVDs, analysts said Matsushita's margins in these markets were still too small to affect earnings. Even though the company holds a 40 per cent share of the global DVD market, its high production costs would lower its competitiveness, said Kimihide Takano, industry analyst at Dresdner Kleinwort Benson in Tokyo.

"Matsushita needs to revise the way it markets its products. It needs to improve its brand image," Mr Takano said, pointing out that rival Sony had a stronger global brand recognition.

NEWS DIGEST

PUBLISHING

Axel Springer forecasts increased 1998 earnings

Axel Springer, the German publishing group, yesterday forecast improved earnings for 1998 on the back of a strong performance in the first half. The company, which publishes Germany's biggest selling newspaper, Bild, said sales in the first six months advanced 4 per cent to DM2.3bn ($1.28bn). Net profits rose almost 9 per cent to DM129m. In 1997 the company made full-year net profits of DM211m.

Springer said sales had grown in spite of an increase in newsprint prices, and increasing competition in some of its core markets, such as Berlin, once almost a fiefdom of the company. Turnover in the newspaper division rose 3.5 per cent to DM1.4bn, while sales at the magazine unit advanced 5.5 per cent to DM636m. Rising paper prices contributed to a 7.4 per cent rise in materials costs.

Under the leadership of Gus Fischer, a former executive at Rupert Murdoch's News Corporation who moved to the German company at the start of this year, Springer has stated ambitions of expanding its international activities. **Frederick Stüdemann, Berlin**

TECHNOLOGY

Jenoptik cuts loss to DM9.7m

Jenoptik, the east German technology group which recently floated on the Frankfurt Stock Exchange, shrugged off the effects of the global collapse in semiconductor prices with a 45.6 per cent rise in first-half sales to DM1bn ($557m). Pre-tax losses were cut 62.1 per cent to DM9.7m. The company, whose main business is the construction of "clean room" factories for computer chipmakers, said long-term orders allowed it to avoid the cyclical downturn in semiconductors, which has been accelerated by the Asian crisis. Sales at its clean systems unit rose 78.5 per cent to DM496.5m.

Asia did have a negative impact on the telecommunication technology unit where the devaluation of the Indonesian rupiah caused currency losses of DM5m and contributed to a 9.7 per cent decline in sales to DM287m. Acquisitions boosted sales at the photonic technology division by 152 per cent to DM141m. Lothar Späth, chairman, forecast improved performance in sales and earnings in the second half and said the company planned to pay a dividend for the 1998 fiscal year. The pay-out will be the first following Jenoptik's DM770m initial public offering in June. **Frederick Stüdemann**

INSURANCE

Corporación Mapfre static

Corporación Mapfre, one of the Spanish companies to have suffered heavily on the stock market in recent days because of its involvement in Latin America, reported flat first-half net profits of Pta6.1bn ($40m), with lower earnings from overseas insurance operations. The company, which is the listed holding unit of Spain's largest insurance group, said total premiums rose 7.9 per cent to Pta226bn, including a 12.4 per cent increase outside Spain.

In Latin America, where it now claims top place among foreign insurers, its life assurance interests went into the red, with a loss of Pta145m. Profits from non-life business fell 4.6 per cent to Pta876m. Although the net result was virtually unchanged from last year's first half, analysts said the full-year profit should be up, with Pta3.5bn of capital gains expected after a recent deal with the Caja Madrid savings bank. **David White, Madrid**

BANKING

Jyske drops to DKr379m

Jyske Bank, the Jutland-based bank which ranks fourth in Denmark by assets, yesterday reported a fall in first-half operating profits from DKr727m to DKr379m ($55.4m). The reduction reflected a negative DKr103m adjustment for the value of the securities portfolio, compared with a gain of DKr291m last year. Net interest and fee income was ahead 16 per cent to DKr1.38bn. Costs rose 5 per cent to DKr806m and loss provisions rose from DKr115m to DKr155m. The bank said core earnings in the first half were better than it had expected when the year began. It forecast that core earnings (after provisions, but excluding value adjustments for securities), will be at the upper end of a DKr600m-DKr800m range for the full year.
Hilary Barnes, Copenhagen

FINANCIAL SERVICES

Danske to buy Swedish broker

The integration of the Nordic financial markets is set to intensify as Den Danske Bank, the Danish bank, negotiates the purchase of Myrberg Fondkommission, the Swedish brokerage with 24 employees engaged primarily in analysis and trading in Swedish equities. Danske said yesterday the acquisition was intended to strengthen its position in the market for Swedish equities. Last year Danske bought the Swedish provincial bank, Ostgota Enskilda Bank, which is being expanded. **Hilary Barnes**

DENMARK

Ratin ahead 29% at midway

Ratin, the Danish company holding 32.1 per cent of the shares in Rentokil, the UK services company, reported a 29 per cent increase in first-half pre-tax profits, to DKr836.4m ($122m). Profits after tax rose 28 per cent to DKr588.5m. Ratin was formed at the beginning of this year via a demerger from Sophus Berendsen, the textile services group. Ratin's only assets are shares in Rentokil. Ratin said net earnings per share rose from DKr17.42 to DKr22.22. Net assets per share rose from DKr5.57 to DKr17.74. **Hilary Barnes**

PHARMACEUTICALS APPOINTMENT OF ELLIOT GOLDSTEIN FROM SMITHKLINE BEECHAM WELCOMED BY ANALYSTS

British Biotech names chief executive

By Jonathan Guthrie

British Biotech, the biotechnology company, has appointed Dr Elliot Goldstein, a senior executive at SmithKline Beecham, as its new chief executive. In September he will replace Keith McCullagh, the founder of British Biotech, who announced in May he would step down following allegations the board had misled investors.

Shares in the company, once seen as the UK's leading biotechnology business, fell ½p to 36½p reflecting concerns about the efficacy of drugs under development and continuing investigations by securities watchdogs in the US and UK.

However, the appointment of the outsider was welcomed with relief by analysts who feared Mr McCullagh could have been replaced by Pam Kirby, commercial director of British Biotech. Ms Kirby was associated with an unpopular strategy in which the company aimed to bring its drugs to market with as little help as possible from big partners.

The company said yesterday that Ms Kirby, 43, would retire from the board in September and that her duties would become part of Dr Goldstein's responsibilities.

Nick Woolf, a pharmaceuticals analyst at BancAmerica Robertson Stephens said: "This infusion of fresh blood should give the company a new lease of life."

A former colleague of Dr Goldstein said: "He will bring a sense of realism as to what British Biotech can achieve and will not see the business through rose-tinted spectacles as Mr McCullagh sometimes did."

Dr Goldstein was unavailable for comment, but analysts said his decision to join British Biotech could in part have been prompted by a lack of promotion opportunities within SKB.

An important challenge facing Dr Goldstein is to strike a deal with a big pharmaceuticals company to distribute marimastat, British Biotech's blockbuster anti-cancer treatment, in the US. Analysts said he had the right contacts and experience to do this. Dr Goldstein, 47, is director of Worldwide Strategic Product Development at SKB, overseeing all activities leading to the launch of a new drug. He is also a vice president of the company.

Importantly, the doctor, who is Canadian, has wide experience of clinical trials. Between 1989 and 1994 he ran the US testing programme of Sandoz, the Swiss pharmaceuticals company.

Whether the new management succeed in bringing British Biotech back to corporate health depends largely on the efficacy of marimastat. A series of 11 final clinical trials of the drug are expected to report results over the next three years. If these are positive, marimastat could produce peak sales of up to £500m ($825m) a year.

Alan Sugar may sell his 40% stake in Tottenham Hotspur

By Patrick Harverson

The ownership of Tottenham Hotspur football club was in doubt last night after indications that Alan Sugar, its chairman, might be prepared to sell his 40 per cent stake.

An adviser to the businessman said Mr Sugar had not received any offers for his holding, but incessant criticism from Tottenham fans about his stewardship of the club had persuaded him that a sale might be in his and the club's best interests.

Mr Sugar, the founder of consumer electronics group Amstrad, took control of Tottenham in 1991. He has threatened to sell his stake in the past but has remained at the helm during an increasingly difficult period for the club, which has failed to win a trophy under his ownership, and narrowly avoided relegation from the Premier League last season.

However, the adviser said Mr Sugar had been angered by events after Tottenham's 3-0 loss on Saturday to Sheffield Wednesday, when hundreds of fans protested outside the stadium demanding the club's board be sacked.

He was "now more likely to look at a sale more seriously than before" if the right offer came along, the adviser added. The remaining 60 per cent of the company is held by financial institutions and private investors, including fans.

Tottenham shares closed up 1p at 61p, valuing the group at £61m. The company made pre-tax profits of £7.57m in 1997 and City analysts believe a bidder would have to pay between £70m-£80m to take over the club.

News International, the media group owned by Rupert Murdoch, yesterday denied reports that it had held talks with Mr Sugar about buying his stake.

Analysts believe the stake could attract interest from companies in the media industry, which until now has not invested directly in English football.

Television companies pay huge sums for the rights to broadcast clubs' games. BSkyB, the satellite group controlled by Mr Murdoch, is currently paying £670m for four years' worth of Premier League football. Analysts say broadcasters may come to believe it makes more sense to buy the club that owns the rights.

Media ownership of sports clubs is well established in the US and continental Europe. In California, Mr Murdoch recently acquired the Los Angeles Dodgers baseball team through his Fox broadcasting company. Silvio Berlusconi, the Italian media mogul, owns AC Milan, and Canal Plus, the French broadcaster, owns Paris St Germain.

Aggreko meets growth target

By Christopher Swann

Aggreko, the international power hire company, met its self-imposed 10 per cent growth target for operating profits in its first interim results since demerging from Christian Salvesen.

Ice storms in north-east America raised demand for generators, helping lift operating profits 14 per cent in constant currency terms in the six months to June 30. Pre-tax profits nudged above analysts' forecasts, rising 9.3 per cent to £12.9m ($21.3m), against a pro-forma £11.8m.

Chris Masters, executive chairman, said the group was not dependent on individual contracts, industries or economies. "We are not totally immune to a global recession, but with operations in 20 countries, a diverse customer base and mobile equipment, we are unusually resilient."

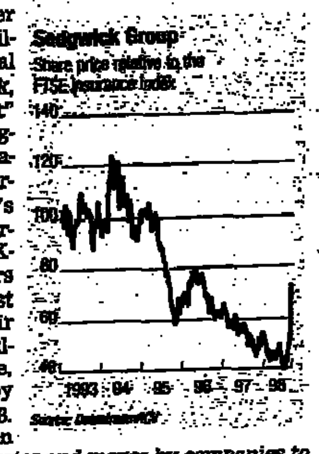
Despite making three-quarters of its sales outside the UK, the group said it had suffered no transactional hit from the strength of sterling. Turnover, static at £76m, would have been £3m higher but for the strong pound.

Dr Masters said turnover has also been held back by stripping out low-margin contracts to supplement power supplies for utility companies at peak periods.

As a consequence, operating margins in Europe rose 8 per cent, pushing group margins up 2.1 percentage points to 21.3 per cent. But margins in the US slipped slightly as a result of increased competition.

COMMENT

Sedgwick



One door closes, another opens. Only a month ago Willis Corroon, the most logical merger partner for Sedgwick, stuck a "private, keep out" sign on its door. Now Sedgwick has moved with admirable speed to secure a different role in the sector's consolidation. It is not surprising that both the UK-based international brokers attracted predatory interest from the US, where their brethren are more highly valued. Sedgwick, for instance, has improved its profits by about 50 per cent since 1993. But revenue growth has been marred by falling premium rates and moves by companies to cut out the middleman.

The big brokers have not been slow to respond. Marsh & McLennan and Aon have both taken over US rivals in the past two years. Aon also moved in the UK, buying Bain Hogg and Minet. Such a concentration must at last swing some pricing power back in the brokers' direction. Efforts to provide fee-based consultancy services and to automate transactions should help them capitalise on this. No wonder Willis's management was keen to fix an uninflated price for its buy-out, and Sedgwick was able to extract a 58 per cent premium to Monday's closing price.

Is Marsh overpaying at nearly 12 times 1997 operating profits of £106m? Not if it can extract about £130m in annual cost savings – as it has apparently achieved in the Johnson & Higgins takeover. Only poor execution and serious client defections would sour this deal.

Tottenham Hotspur

Alan Sugar may want to sell his 40 per cent stake in Tottenham Hotspur, and who could blame him? The team produces nothing but heartache, the fans abuse him and his initial £8m stake could be worth £30m now. Shareholders have recently fared badly – the share price has halved since the start of last year. General disillusion with football stocks has not helped, but mostly this reflects Spurs' continuing failure on the pitch. Mr Sugar may have done a decent job in the boardroom, but he must shoulder blame for the lack of silverware – the result of a string of indifferent managers and players. The lesson for investors is that success on the pitch is the only currency that really matters. Perhaps north London neighbours Arsenal could offer a few tips.

RESULTS

	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aggreko .... 6 mths to June 30✠	76	(76.4)	12.9	(11.8)	3.09	(2.9)	1.65	Nov 27	-	-	0.94#
Asda Property ..... 6 mths to June 30★	20	(21.6)	6.71	(4.85)	5.5	(3.9)	0.95	Nov 2	0.9	-	3
Beigo .... 15 mths to June 30☆	4.14	(1.66)	0.405♠	(0.63♠)	0.043†	(0.8L)	nil	-	nil	nil	nil
Cairn Energy .... 6 mths to June 30	23.5	(31.9)	1.79L♠	(8.49♠)	-	(1.85)	-	-	-	-	-
Gibbs & Dandy .... 6 mths to June 30	18.8	(17.8)	0.602	(0.377♠)	5.4	(3.3)	1.7	Oct 5	1.6	-	4
Hambro Countrywide. 6 mths to June 30	121.9	(116.5)	18.9♥	(24.2♥)	4.24	(9.2)	1	Oct 1	1	-	3
Irish Permanent ♣ .... 6 mths to June 30	-	(-)	31.3	(25.9)	24.4	(19.3)	6.1	Oct 23	4.6	-	15.3
Kalon .... 6 mths to June 30	240.8	(242.5)	21	(24.4)	3.52	(4.27)	2	Oct 7	2	-	6.2
Lambert Howarth .... 6 mths to June 30	47.4	(51.1)	2.66♠	(1.71♠)	12.7	(7.6)	3.25	Oct 8	2.75	-	8.5
Readymix ♣ .... 6 mths to June 30	60.8	(55.1)	7.01	(6.32)	5.43	(4.88)	0.86	Oct 7	0.78*	-	2.655*

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
IT of Guernsey ...... 6 mths to June 30	136.4	(104.8)	1.01	(1.28)	1.74	(1.56)	0.8§	Nov 20	0.8	-	2.5
Jupiter Intl Green..... 6 mths to June 30	77.5	(68.2♦)	0.496	(0.463)	1.91	(1.84)	1.7	Sept 30	1.7	-	4.1
Throgmorton Pref ..... 6 mths to Apr 30	7.03	(9.4)	0.78L♠	(0.505)	0.23	(0.84)	nil	-	2.2	-	2.2

Earnings shown basic. Dividends shown net except §Gross throughout. Figures in brackets are for corresponding period. ✠Comparatives pro forma. #For five months; excludes special. ★Comparatives restated. ☆Comparatives for 12 months to March 31 1997. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ♣Irish currency. *After adjustment for scrip issue. ♦At December 31.

Bangladesh news unsettles Cairn

By Michael Peel

Cairn Energy, the oil and gas company focused on the Indian subcontinent, yesterday said it was disappointed by the inconclusive results of a recent licensing round in Bangladesh, where it has a three-quarters share in a countrywide alliance with Royal Dutch/Shell.

Cairn said it was also disappointed that its Halda gas exploration well in Bangladesh had flowed mostly water.

The shares closed down 28½p at 132p.

Although the Bangladeshi government selected Cairn and Shell to exploit one of the two licences they applied for, Cairn said a decision on a further award had been delayed without any explanation. "The $64,000 question is why has it been postponed?" said Bill Gammell, chief executive. "I can't give you an answer. I wish I knew."

Cairn made losses after tax of £6.17m ($10.2m) for the six months to June 30, compared with a 1997 interim profit of £3.13m.

The latest figures included an exceptional charge of £2.7m relating to the closure of Cairn's Sydney office, and a provision of £5m to cover the fall in the value of the company's 10.4 per cent stake in SOCO International, the oil exploration and production company.

Turnover from continuing operations fell 18 per cent to £23.5m mainly reflecting the decline in the oil price.

Zeist, Holland – AP

Pratini de Moraes, president of AEB, and Julio Bueno, president of Inmetro: quality of companies to guarantee doubling Brazil's exports by 2002

No nostalgia as Sedgwick joins the global fray

Takeover of UK broker highlights the trend that only the largest will survive in the sector, writes Christopher Adams

Sax Riley had little time yesterday for nostalgia. The chairman of Sedgwick shrugged off the poignant observation that Marsh & McLennan's acquisition of the company meant Britain losing its sole remaining independent insurance broker of significance.

"You could say it's a sad day, but we look at it as an opportunity," he said. "We set out our stall to be global many years ago and we need a strong partner to do that. I don't consider us to be a UK business. If you had to be in outer Mongolia because it was flavour of the month, then we'd be there."

The deal with Marsh & McLennan will make Sedgwick part of the world's biggest insurance broking group, giving it a worldwide presence in a market that is consolidating rapidly.

The pace of restructuring among insurance brokers has accelerated in the last two years. Two firms, Chicago-based Aon and Marsh & McLennan in New York are set to dominate the sector. Willis Corroon, Sedgwick's UK rival, is to be acquired by US buy-out specialist Kohlberg Kravis Robert for £951m.

The need for global reach is just one of the forces driving consolidation in the broking sector, analysts said.

"This is a business where margins are under threat," said Tim Young of SG Securities. "Companies want to rationalise the back office and get economies of scale. Once you have that, you can battle declining margins because of your power as a supplier."

Revenue growth from pure broking activities has been virtually static when adjusted for inflation. Companies that have traditionally bought policies to cover every insurable risk on their balance sheets have been retaining a greater proportion of those liabilities. This has intensified competition among brokers, not only because there is less business but because it has resulted in a shift from commission to fee-based remuneration.

Brokers are also having to invest heavily in new expertise as the tools for managing risk become more complex. Most multinationals have their own "captive" insurers, affiliated companies dedicated to looking after their insurance needs, and require advice rather than the service brokers have traditionally offered. Premium rates for marine, aviation and catastrophe coverage have been falling by as much as 20 per cent a year.

Pressure to contain expenses at the same time is therefore immense.

The ability to achieve cost savings and exploit demand for products that are just evolving will be improved with increased scale. Marsh & McLennan and Sedgwick plan to cut costs by at least \$150m a year and over 1,000 jobs will be lost.

Analysts expect most of these to be in the US, which accounts for 29 per cent of Sedgwick's income and in London, where there will be overlap with Marsh's CT Bowring subsidiary.

The fallout from the merger could be significant if disaffected staff leave.

Both sides, however, were keen to stress how they complemented each other. Marsh & McLennan already has a substantial employee benefits business in William Mercer and retail fund management expertise with Putnam, where assets under management have risen from \$65bn in 1992 to \$235bn last year. These offset its exposure to transactional broking.

For its part, Sedgwick derives 24 per cent of its revenue from consulting. Sedgwick also has a joint venture with Nikols Brichetto, Italy's largest broker, while Marsh owns France's Cecar. Marsh & McLennan has learned over time how to integrate businesses: it bought London-based CT Bowring in 1980, Germany's Gradman & Holler in 1989 and Faugère & Jutheau of France three years later. Last year, it acquired privately-owned Johnson & Higgins of the US for \$1.8bn as Aon, its biggest rival, stepped up its challenge with the purchase of Alexander & Alexander.

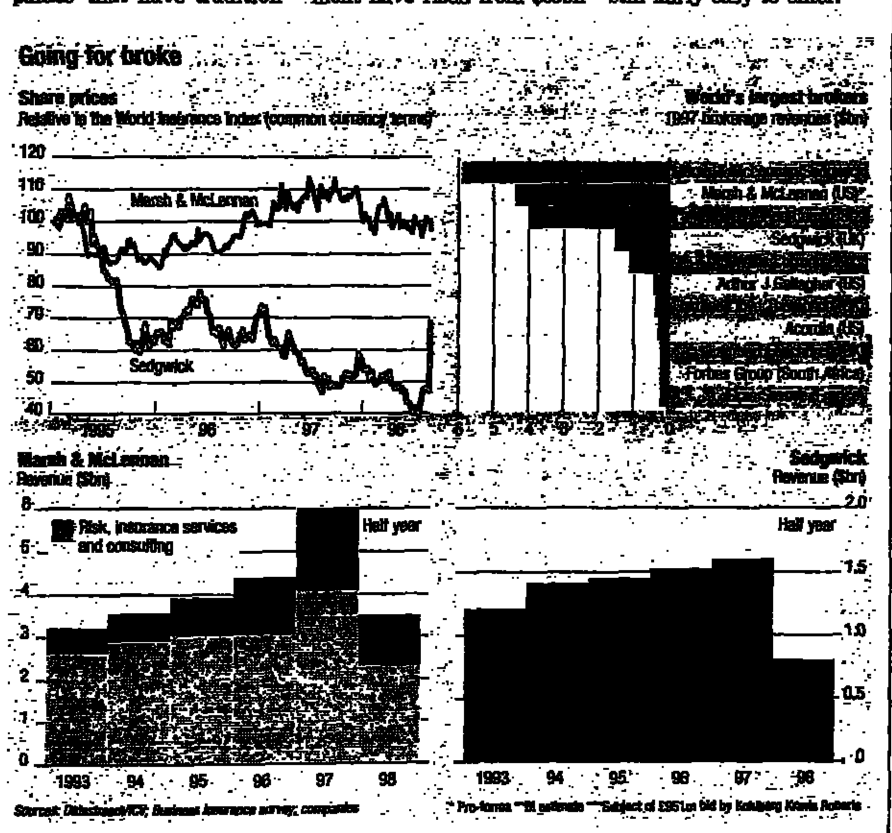
But the rate at which the industry is consolidating raises questions for clients and regulators.

Sedgwick's share price, which has fallen steadily versus the rest of the stock market for several years, rose sharply yesterday but failed to match Marsh & McLennan's bid, reflecting concern among analysts that the deal may run into opposition from competition authorities.

"There's going to be an increasing amount of business in the hands of fewer players. Insurance companies will be concerned they are exposed to single brokers. There are many clients who will say I want more than one adviser," said Robin Savage of Credit Lyonnais Laing.

"There will also be teams of brokers who will say I want to work for a smaller company."

Ian Smith, chairman of Marsh, said the group did not expect to suffer from staff defections and added that competition had not diminished, despite consolidation. "There are fewer brokers than there were, and I guess that arithmetically means there is less choice. But the broking business is still fairly easy to enter."



Allied Zurich and BAT London trading launches

By Jim Kelly

Allied Zurich, one of the two holding companies of the new financial services company formed by Zurich Insurance of Switzerland and UK-based BAT Industries, is expected to start trading in London on September 8.

On the same day British American Tobacco, the third biggest tobacco group in the world, will begin trading in London.

"Both Allied Zurich and British American Tobacco are expected to be constituents of the FTSE 100 share index, with effect from the start of dealings," said BAT in a statement yesterday.

The merger proposals were originally announced last October when the merger was valued at £23bn. Taking yesterday's closing prices and exchange rates, the merged financial services group would be valued £34.7bn (\$57.3bn), including Allied Zurich at £14.9bn, and British American Tobacco at £5.43bn.

Allied Zurich comes into existence with the merger of the Swiss-based financial services group with the insurance and asset management arms of BAT Industries, to create Europe's second-biggest insurance company.

Two holding companies – Zurich Allied, to be listed in Zurich, and Allied Zurich, listed in London – will own the combined financial services operation, to be called Zurich Financial Services or ZFS.

In December the terms were slightly modified to reflect the better than expected anticipated earnings outlook at Zurich. Zurich shareholders will now own 57 per cent – rather than 55 per cent – of the new group, which will include Allied Dunbar, the UK life assurer, Eagle Star and Threadneedle Asset Management, as well as Farmers. BAT will receive £500m.

Dawson fails to find buyer

By Christopher Swann

Shares in Dawson International, which put itself up for sale in May, lost a quarter of their value yesterday after the Scottish textile group said it had not received any credible offers.

The shares fell 5¼p to 16p after the announcement which coincided with a gloomy trading statement. The group said it would only break even for the year before exceptionals, against pre-tax profits of £11m last time. Dawson, owner of the Pringle brand, also lifted its estimate of exceptional costs, relating to restructuring in the UK, closures in the US and professional fees, from £11m to £18m (\$21m).

The group, plagued by the strength of sterling and poor sales during a mild US winter, said it would consider offers after a profits warning in May. The shares were then trading at 58p.

Derek Finlay, a management consultant and Heinz executive who returned from retirement in 1993 to become executive chairman, said the uncertainty had been damaging sales. He said Dawson would try to recover its competitive position by sourcing more from Italy and possibly the Middle East.

LOUISE KEHOE
EAGLE EYE

Lost in a maze of misinformation

Searching for an impartial website can be difficult, particularly when many internet directories are not what they seem

"On the internet they don't know you're a dog," a New Yorker magazine cartoonist once wrote beneath his sketch of a dog staring at a computer screen.

Turning that commentary on its head, it might also be said that on the internet, you don't know when you have found a dog. Internet directories used to search for websites are not always what they seem. Most of the best known directory services present websites chosen on their merits, or selected automatically by search engines that pick out keywords to match search terms.

Then there are those that promote websites of companies and organisations that pay to be included in their listings. A good example is GoTo (www.goto.com) which offers "market driven" searching. GoTo is very open about how it makes money. Search results are tagged according to how much advertisers pay if you choose to access their websites. Search for football, for example, and the results are ranked according to the amount each website bid for top billing under this search term, rather than any type of relevance ranking.

Users might wonder about the value of GoTo's service, but the company is to be commended for full disclosure. What is the difference, after all, between its approach and that of the more familiar telephone Yellow Pages, where businesses buy advertisements to make their listings more eye-catching? As compared to the trickery that many websites employ to capture the attention of supposedly unbiased search engines, GoTo is perhaps a more legitimate approach.

But other web directories – in particular specialised websites – may not be as forthcoming. Determining, for example, whether an internet travel guide recommends hotels based on sponsorships or on the opinions of travel experts is not always easy. The problem is that the lines between advertising and editorial have yet to be clearly drawn in the world of internet publishing. Until they are, the quality of all web publications will come under suspicion.

* * *

Yet another approach to web searching was launched last week when Direct Hit (www.directhit.com) made its debut on the HotBot search service, ranking websites according to their popularity among web users.

By analysing the activity of millions of previous internet searchers, the company determines which websites most users have chosen as relevant for any particular subject. You get results that other web users have found "consistently useful" says Gary Culliss, chairman and co-founder of the start-up company. This helps to sort through the dozens, sometimes hundreds of selections that a "raw" search engine may return.

The results are usually impressive. Initial searches tend to put commercial websites, particularly those with something to sell, at the top of the list. The Direct Hit option sorts out the wheat from the chaff. It is not foolproof, but it is often an improvement over the apparently random selections of a search engine. As Direct Hit continues to analyse the results of users' searches it can only get better. One drawback may be that it may take some time for new websites to achieve the popularity needed to promote them to the top of the list.

* * *

Most of us have separate business and private lives. Yet when we send e-mail it is not always clear whether *we are communicating as* representatives of our companies or as individuals.

This can lead to confusion, especially if a message is widely disseminated on an e-mail list or newsgroup. Let's say, for example, that you send an e-mail commenting on local politics. Are you speaking as a voter or as a business executive? One clue might be whether you send your e-mail using your corporate e-mail address. Yet many people send personal e-mail messages from their office desks. On the other hand, you might send a business e-mail from your home computer using a personal e-mail account. Does this make the communication unofficial and therefore not binding if it relates to a business transaction?

Often people attempt to avoid any possibility of misunderstanding by adding a disclaimer to e-mails: "Opinions expressed are those of the writer and not XYZ Company". What we need is the electronic equivalent of an official "letterhead"; e-mail forms that can be used to send business messages and perhaps some attractive electronic stationery for personal notes.

The latest e-mail software such as Microsoft's Outlook 98 and Qualcomm's Eudora Email include options that enable users to create e-mail stationery. In Outlook, for example, you can choose from several template designs or create your own. It should be standard practice for corporate e-mails to go out with the company's logo attached, much as business letters are normally written on corporate stationery. Electronic stationery would not provide a sure means of authenticating the source – any more than it would in the world of paper and printers – but it should help to avoid confusion between business and personal e-mail.

Perhaps the more official look of e-mail written on electronic letterhead might also encourage users to choose their words more carefully: not a bad thing in an era of litigation based on electronic records. Any why not dress up your personal e-mail with some fancy "epaper" to give it a personal touch? No doubt *there are many people who* would like to see e-mail continue in its raw text format. "Faster to download and unfettered by silly graphics," they will no doubt say. Yet I am reminded of the pre-web days of the internet when it seemed ridiculous to dress up text databases with colour, page design and pictures. Tens of millions of users of the world wide web have proved otherwise.

TECHNOLOGY SEX ON THE INTERNET

Cybersex weaves a tangled web

Pornography is among the fastest-growing sectors, says **Christopher Price**

Sex on the internet is big business. Just ask Seth Warshavsky, the 24-year old owner of Internet Entertainment Group, one of the biggest producers of adult on-line video and other pornographic material.

He expects his Seattle-based business to increase revenues this year to \$50m from \$20m. "Business is growing at a tremendous rate," he says. In California, Danni Ashe, a veteran of the internet sex scene at 29, predicts a 33 per cent rise in revenues this year to \$3.5m from her site, Danni's Hard Drive.

Such is the market's rapid growth that Forrester Research, the US research group, last week increased its estimate of the industry's revenues this year from \$185m to \$500m.

Even this, admits Mark Hardie, senior analyst at Forrester, is conservative, with the real figure possibly closer to \$1bn. "We know of at least three sites doing more than \$100m a year. And there are hundreds of sites out there."

Putting exact figures on an industry where most participants are reluctant to talk is difficult. But anecdotal market research suggests that 40 per cent of adults with an internet connection regularly visit sex sites.

Mr Hardie says the reasons for the popularity of sex on the web are twofold: demand and convenience. "It's available and it's in the privacy of your own home. The anonymity of the inter*net means it is the perfect* medium for this kind of thing."

The industry has shown itself among the most innovative in embracing electronic commerce. It has pioneered the use of secure payment systems, as well as the use of graphics, particularly "streaming" video, which gives the impression of video by running still images together quickly.

But to paint a picture of an homogeneous industry would be misleading. The industry is as diverse and fragmented as the internet itself, reflecting the very low barriers to entry.

The range of pornography on offer varies enormously. There are sites set up by amateurs, including the popular "cam" sites where individuals and couples set up a camera in their homes to film their every movement. These sites are usually free.

At the other extreme, literally, are the hardcore sex sites, which will usually demand a hefty subscription price for their services.

Mainstream sex sites generally fall into two categories. Pay sites charge monthly subscriptions to view their material. Danni's Hard Drive for example, which contains hundreds of photos of large-chested young women, including its proprietor, claims 22,500 subscribers, each paying \$14.95 a month.

So-called free sites support themselves by sponsorship and banner advertising. However, many, which promise all kinds of erotic fare, are rarely that generous.

Many are set up by proprietors of pay sites to lure unsuspecting visitors – often with false offers of sexy photos. They will usually include a default which will only allow the visitor to exit via the pay site.

Other free sites are paid a few cents "per click" by the pay sites for every visitor they pass on. The same Java technology is employed to deny the visitor the opportunity to exit from the site before passing through the pay site.

Other defaults in different sites can tie unsuspecting visitors up for lengthy periods, clicking up cents for the sending site, increasing a site's "hit" rate and improving its value to advertisers.

The industry itself is deeply divided between those that want to offer a genuine service, and those that for either financial or mischievous reasons, do not.

"Crime is rampant, widespread and pervasive," says Mr Hardie. "And there's nothing anyone can do about it."

e-question

'Why is the internet sex industry so successful?'

Mr Warshavsky admits: "We have a tremendous problem with theft and copyright abuse. It never stops."

Mr Warshavsky employs two lawyers full time pursuing litigation against thieves, who will typically download the videos and pictures from IEG's websites. Mr Hardie dismisses attempts at legal action as "a grain of sand in a desert" against the problem of content theft.

Other attempts to stop fraudulent operators include websites set up to expose them, such as *www.nocheats.com* and *www.apicwebposse*. Such sites list offenders and fraudulent operators.

One sex site owner, based in the US but who refuses to be identified, admits to stealing images. "Everyone does it. The internet's supposed to be about the free exchange of information. That's all I'm doing."

He refuses to say what his full-time occupation is, but claims his site makes barely enough to cover costs.

Others take a similar view, believing the internet should not be about making money. Hackers have set up sites, such as *www.passwordz.com*, to publicise the passwords of pay sex sites. That has prompted proprietors to invest heavily in security software.

Despite the complaints of the established internet sex industry participants, it is clear that they also benefit from the fraudulent and bad service offered by many. "The big established sites, like Playboy and Sex.Com, are getting bigger because of their brand and service," says Mr Hardie.

Ms Ashe puts her success down to establishing her site early, and her high profile as a former stripper and dancer turned web entrepreneur. "I was the first female performer on the web, and I was lucky, I love performing nude and I've always had an interest in computers."

She believes that far from being exploitative of women, the internet sex industry is empowering. "Stripping and the sex industry offer women an amazing insight into the male psyche and the power play men use." She admits, however, that it is a career not suited to all women. "You have to have a flair for it."

Mr Warshavsky, who like many in the internet adult content industry started his career in the telephone sex market, points to heavy investment as underpinning success.

"We invested \$3.5m in equipment, content and marketing before we even started, and we continue to spend \$1m a year on promotions."

His IEG group also produces all its own content, mostly from a warehouse near its offices in Seattle. "We've got a lot of desirable content exclusive to us," he says. "This includes 10 of the hottest sex actresses, who can only appear live on our sites."

IEG, like most adult content sites, is investing heavily in video technology. Technology allowing seamless video broadcasts on the internet is moving closer.

"We already have a lot of hotel clients and cable companies on exclusive contracts," says Mr Warshavsky. It is a trend he believes will be compounded by other multimedia developments. "The internet and television will converge, which will open up even more opportunities for us."

This concludes the series on internet commerce.

JOHN W. HUNT
ADVISES

Intuition is more than just a hunch

Instinctive decision-making is in fashion and the search for intuitive managers is on

Dear Professor Hunt, I am intrigued by one of my managers, whose short time at the company to date has been peppered with impressive feats of instinctive problem solving. Her CV punctures the lie that it is merely beginner's luck, but I am intrigued when she tells me she "just knows" the likely outcome of her actions. In my experience such intuitive clarity of thought is rare, not to mention unorthodox. How does she do it?

Prof Hunt replies:
For a long time people running businesses have been intrigued by the role of intuition – hunches about how things will occur or how information is related.

However, only recently has intuition come under rigorous scientific scrutiny. As an article in the Psychologist journal ("Knowing Without Knowing Why", May 1998) put it: "Intuition has been an uncomfortable, and therefore, for most of this century, a neglected notion in psychology."

Well, things are changing. After decades of being warned about the uncertainty of hunches, chief executives are now being encouraged by management gurus to play their hunches. Personality tests, claiming to assess intuition, are common.

This change has been driven on two obvious fronts. First, there is growing awareness that there are some individuals in the business world who are better able to foresee events, to select options, to devise strategy, to select winners. And, while academic researchers have avoided ways of understanding the role played in this by intuition, others – such as human resources specialists and consultants working with chief executives – are noticeably less coy.

Second, the creators of one commonly-used personality questionnaire, Myers Briggs, claim that only 12 per cent of adults in any society are strongly intuitive. In an age where devising solutions to complex problems is a huge service industry, it is not surprising to see much of the current management training aimed at identifying those who are more intuitive than the rest.

Identifying solutions to business problems rarely follows the rational processes so admired by planners and researchers. *Often these solutions* appear as bolts from the blue or at the end of a hazy and meandering cognitive process.

There are similarities here with the intuitive way that children learn. For example, Rubik's Cube was far less of a challenge to most children than it was to adults. Similarly, most children cope with modern technology far better than their often bewildered parents. The author of the Psychologist article, Guy Claxton, argues that children use an implicit learning approach in which they simply play with the puzzle (or the personal computer) and pick up, without thinking, the patterns that emerge. Adults try to figure out how things work, to find logical, sequential explanations. The child's unconscious trial-and-error learning appears to have parallels with the thought processes of an intuitive manager.

Ironically, research has shown that intuitive learning is at its most effective when the patterns are complex – for example, multiple sources of information, few apparent rational links – and counter-intuitive. Those with intuitive ability are tolerant of this confusion and do not try to force data into a rational explanation. Instead, they try to visualise the whole to reduce its complexity. Frequently, they create two-dimensional pictures to explain their insights to others. In short, they create their own Rubik's Cubes.

The articulation of this insight is often a tortured process. Lunch can become a series of chess-like moves as they co-opt the salt and pepper, knives and forks, to communicate their perception of events. Such modelling arises from a need to give substance and form to a fleeting hunch; to make sense of a bolt from the blue.

Many intuitive managers, of course, fail to explain their insights to others. If forced, they fall back on rational explanations, yet to the listener it is clear that this post hoc rationalisation provides very little evidence of the journey to understanding that took place.

In all this, however, it is as well to remember that intuition is a fallible guide to action. Claxton argues that it is no less so than logic, but then we have all met the highly intuitive executive whose reputation is that one in 10 of their ideas comes off. It is not surprising that most of us return to more conventional thought processes which time has shown to be comforting, if not always effective. And it goes without saying that rational explanations are much easier to sell.

But what of the environment in which intuition is perceived to flourish? Contrary to popular myth, stress is not conducive to intuitive activity. Low personal stress levels and a relaxed approach to the problem in question appear to be beneficial. Konrad Lorenze, a Nobel Laureate for medicine in 1973, is quoted by Claxton as saying: "If you press too hard nothing comes of it. You must give a sort of mysterious pressure and then rest, and suddenly Bing!... the solution comes."

Claxton concludes his summary of theories with a quote from the Book of Ecclesiasticus: "The wisdom of a learned man cometh by opportunity of leisure and he that hath little business shall become wise." In an age of obsessively measuring what it is that each of us contributes, one wonders what this observation might mean for the role of intuition and one of its key outcomes – creativity – in organisations.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

EURO PRICES

EQUITIES

European rally lures buyers

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European stock markets followed up Monday's tentative recovery with a more determined rally yesterday, as investors shrugged off the recent crises in emerging markets.

The problems of Russia, Latin America and Asia may not have gone away but share prices had fallen far enough to attract investors, especially as bond markets continued to be supportive. The yield on the benchmark 10 year German government bund dropped to yet another low.

"The correction was justified, the markets had become far too expensive," said David Kidde, head of European equities at Hill Samuel Asset Management. "But now bond yield have come down, there is liquidity support and a lot of the valuation extremes have been taken out of the market."

There was some support from mild inflation data in Germany, where a preliminary August reading pointed to an annual rate of prices growth of just 0.7 per cent.

"Inflation is clearly lower than expected and, with money supply growth in Germany having slowed again, the case for a pre-EMU rate hike is eroding further," said Rita Schuhmacher of Nikko Europe. "The first public statements from [Bundesbank directors] after the summer break are likely to be dovish."

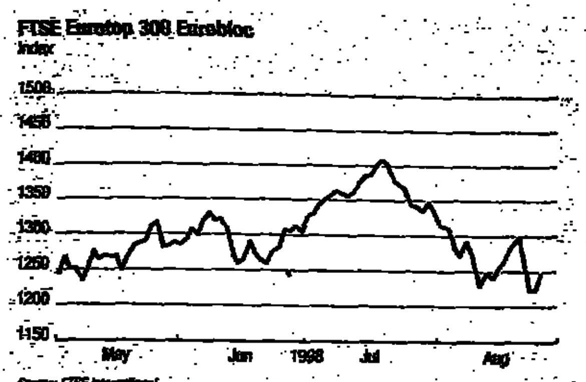
The FTSE Eurotop 100 index rose 53.88 or 2 per cent to 2,744.87, while the broader Eurotop 300 index gained 24.01 to 1,190.30. The FTSE Ebloc 100 index, comprising stocks in countries which are planning to be part of the single currency, had underperformed the other two benchmarks on Monday but rebounded strongly yesterday. It climbed 23.28 or 2.4 per cent to 992.61.

German banks, which had suffered from their exposure to the Russian crisis, rebounded strongly with Dresdner Bank up Ecu 2.90 at Ecu 46.29 and Deutsche Bank Ecu 2.10 higher at Ecu 65.69. UBS gained Ecu 10.90 to Ecu 325.76 on the back of its results.

The best performing sector of the day – up 3.7 per cent – was information technology, where Cap Gemini jumped Ecu 7.80 to Ecu 152.80 and SAP rose Ecu 17.10 to Ecu 587.44.

FTSE Eurotop 300 Eurobloc

Index



Source: FTSE International

THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Oct		95.880	+0.005			0	0
Dec	96.280	96.280	+0.040	96.290	96.270	307	7918
Mar	96.390	96.385	+0.050	96.390	96.390	50	4747
Jun	96.360	96.350	+0.050	96.360	96.360	50	1992

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Sep	Oct	Nov	Dec	PUTS Sep	Oct	Nov	Dec
96000	0.005	0.285	0.295	0.310	0.125	0.005	0.015	0.030
96125	0				0.245			

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	2753.0	2745.0	+45.0	2753.0	2745.0	162	2755
Dec		2768.0	+45.0			0	857

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2600 C	2600 P	2625 C	2625 P	2650 C	2650 P	2675 C	2675 P	2700 C	2700 P	2725 C	2725 P	2750 C	2750 P	2775 C	2775 P
Sep	192	45	173	51	155	59	137	67	121	75	106	85	91	95	78	108
Oct	237	97	219	102	202	97	185	105	167	115	155	125	140	159	126	147

Est vol total:1 . Prev day's open interest total: 6,659 . Premiums shown are based on settlement prices.

OTHER INDICES

	Aug 25	Aug 24	Aug 21	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3294.70	3219.66	3273.72	3670.82	2574.51	3670.82	2976.42
DJ Euro Stx 50	3282.91	3202.96	3209.05	3858.48	2456.81	3858.48	2865.52
MSCI Europe	1157.33*	1154.28	1201.33	1315.55	960.50	1315.55	510.78

Source: Datastream/FT Information. *Subject to revision next day. (n) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

August 25 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1190.30	+2.06	+24.01	2.40	21.91	1221.49
FTSE Eurotop 100	2744.87	+2.00	+53.88	2.40	32.45	980.81
FTSE Ebloc 100	992.61	+2.40	+23.28	2.05	12.97	1005.21
FTSE Eurotop 300 Regions						
Eurobloc	1248.65	+2.33	+28.48	2.03	19.81	1272.69
UK	1101.91	+1.91	+20.63	3.04	28.58	1149.06
Europe Ex-Eurobloc	1143.07	+1.77	+19.92	2.79	23.45	1178.34
Europe Ex-UK	1241.33	+2.13	+25.93	2.08	18.16	1262.47
FTSE Eurotop Industry Sectors						
RESOURCES	860.43	+1.30	+11.08	3.38	21.81	891.89
Extractive Industries	717.77	+1.10	+7.82	3.65	0.00	717.77
Oil, Integrated	831.51	+1.33	+10.91	3.35	15.03	844.49
Oil, Exploration & Prod	741.90	+0.32	+2.38	3.31	0.00	741.90
GENERAL INDUSTRIES	1101.08	+1.93	+20.90	2.57	19.50	1122.27
Construction	949.21	+0.21	+2.01	2.67	11.06	960.25
Building Matls & Merchs	910.23	+2.15	+19.19	2.93	7.65	918.57
Chemicals	914.14	+1.86	+16.71	2.85	16.87	929.61
Diversified Industrials	915.54	+1.51	+13.59	2.59	17.48	931.25
Electronic & Elect Equip	956.86	+1.86	+17.48	1.77	4.89	961.28
Engineering	922.86	+2.14	+19.29	3.67	9.57	931.29
Paper, Pckg & Printing	807.24	+1.83	+14.47	2.90	1.21	808.25
CONSUMER GOODS	1145.77	+1.71	+19.27	1.86	14.97	1173.33
Automobiles	1027.49	+2.32	+23.30	2.52	10.25	1037.02
Alcoholic Beverages	927.24	−0.04	−0.37	2.39	5.82	932.80
Food Producers	950.19	+1.79	+16.67	1.69	9.13	958.57
Household Goods & Texts	1078.19	+0.83	+8.93	1.71	7.01	1085.23
Healthcare	915.91	−0.40	−3.64	1.34	9.32	925.22
Pharmaceuticals	1001.47	+2.06	+20.24	1.31	4.27	1005.85
Tobacco	1080.85	+2.23	+23.57	3.99	1.81	1082.88
SERVICES	1228.84	+2.30	+27.65	2.19	20.11	1259.81
Distribution	835.57	+0.42	+3.46	2.61	11.37	844.96
Leisure & Hotels	814.40	+0.81	+6.57	3.10	10.42	823.04
Media	997.11	+1.92	+18.77	2.38	9.63	1006.60
Retailers, Food	991.10	+0.86	+8.43	3.07	10.70	1001.91
Retailers, General	1015.79	+2.61	+25.88	3.40	13.94	1029.62
Telecommunications	1178.13	+2.70	+30.99	1.74	12.49	1191.85
Breweries, Pubs & Rests	868.78	+1.10	+9.47	3.22	14.20	881.99
Support Services	990.42	+3.22	+30.94	1.41	5.66	998.07
Transport	980.96	+2.51	+23.98	2.51	11.76	991.94
Information Technology	1268.12	+3.67	+44.84	0.32	2.23	1269.00
UTILITIES	1361.95	+1.21	+16.24	3.30	53.32	1435.66
Electricity	1021.62	+1.15	+11.61	3.48	26.23	1048.91
Gas Distribution	1082.72	+1.20	+12.88	1.73	84.81	1182.43
Water	1041.95	+1.51	+15.53	5.07	38.72	1081.74
FINANCIALS	1335.58	+2.49	+32.42	2.52	25.86	1369.44
Banks, Retail	940.13	+2.20	+20.26	3.20	12.52	952.15
Insurance	1011.68	+2.93	+28.76	1.38	10.07	1021.92
Life Insurance	1168.97	+2.83	+32.21	1.47	9.10	1179.01
Other Financial	990.63	+3.64	+34.80	2.07	13.23	1003.70
Investment Companies	987.36	+2.99	+28.70	2.63	20.86	1005.82
Property	790.67	+1.23	+9.59	3.44	18.01	805.20

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CURRENCIES & MONEY

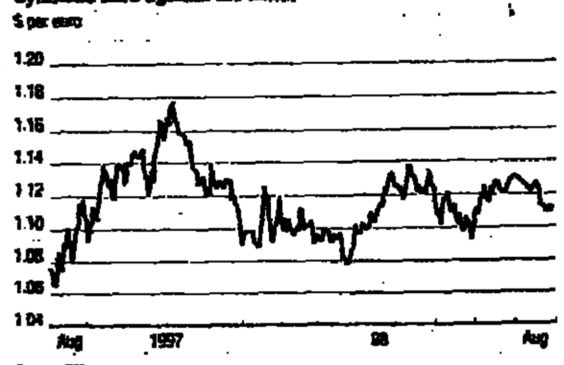
FT SYNTHETIC EURO RATES

Aug 25	Currency code	Closing mid point	Change on day	Change on day %	Change on week	Change week %
Europe						
Austria	ATS	14.066733	−0.0007	−0.01	+0.0000	+0.00
Belgium	BEF	41.232224	+0.0269	+0.07	+0.0084	+0.02
Czech Republic	CZK	36.659569	−0.0034	−0.01	+0.2783	+0.77
Denmark	DKK	7.617017	+0.0025	+0.03	−0.0017	−0.02
Finland	FIM	6.078636	−0.0005	−0.01	−0.0020	−0.03
France	FRF	6.703264	+0.0001	+0.00	+0.0001	+0.00
Germany	DEM	1.999168	−0.0001	+0.00	−0.0001	+0.00
Greece	GRD	341.183044	+1.3994	+0.59	+4.3147	+1.43
Hungary	HUF	250.537704	−0.0776	−0.03	+1.9041	+0.77
Ireland	IEP	0.798867	−0.0003	−0.04	−0.0006	−0.07
Italy	ITL	1971.752508	−0.0385	+0.00	−0.2302	−0.01
Luxembourg	LUF	41.232224	+0.0269	+0.07	+0.0084	+0.02
Netherlands	NLG	2.254162	−0.0000	+0.00	−0.0007	−0.03
Norway	NOK	8.755876	+0.0485	+0.56	+0.1985	+2.32
Poland	PLN	4.111001	+0.0211	+0.52	+0.1677	+4.25
Portugal	PTE	204.600051	−0.0633	−0.03	+0.0436	+0.02
Romania	ROL	9853.068250	+14.9804	+0.15	+139.4295	+1.44
Russia	RUB	8.944177	+1.8200	+22.40	+2.2133	+28.63
Slovakia	SKK	38.437826	−0.0225	−0.06	−0.0764	−0.19
Spain	ESP	169.650991	−0.0059	+0.00	+0.1003	+0.06
Sweden	SEK	9.205197	+0.0367	+0.40	+0.1007	+1.11
Switzerland	CHF	1.571086	+0.0008	+0.05	−0.0041	−0.25
United Kingdom	GBP	0.678093	−0.0008	−0.11	−0.0100	−1.45
ECU	ECU	1.012306	−0.0004	−0.04	−0.0017	−0.17
Americas						
Brazil	BRL	1.304076	−0.0030	−0.23	−0.0018	−0.14
Canada	CAD	1.722178	−0.0007	−0.04	+0.0231	+1.36
Mexico	MXN	10.693046	−0.0704	−0.65	+0.4182	+4.07
United States	USD	1.111061	−0.0018	−0.16	−0.0013	−0.11
Pacific/Middle East/Africa						
Australia	AUD	1.924837	+0.0052	+0.27	+0.0421	+2.23
Hong Kong	HKD	8.605680	−0.0166	−0.19	−0.0143	−0.17
Japan	JPY	160.806785	+0.7487	+0.47	−0.6015	−0.37
Singapore	SGD	1.989836	+0.0028	+0.14	+0.0034	+0.17
South Africa	ZAR	6.966590	−0.0584	−0.83	+0.0062	+0.09

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0115, PTE 0.0155, ATS 0.0328, FIM 0.0187

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

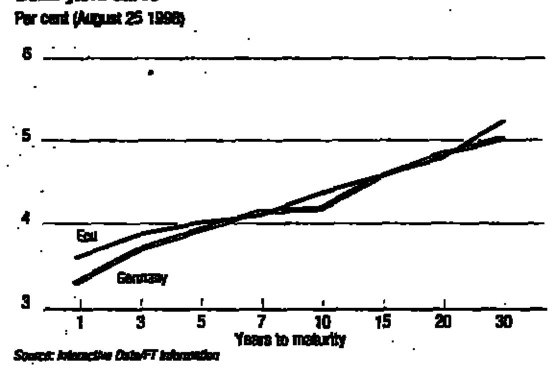
Aug 25	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0363	+0.01	+0.01	7.0382	3.61	+0.08
Belgium	20.6255	20.6247	+0.00	−0.03	20.6282	3.58	+0.05
France	3.35386	3.352	−0.06	−0.06	3.3525	3.57	+0.04
Finland	3.04001	3.0407	+0.02	+0.05	3.0418	3.61	+0.08
Ireland	0.402676	0.3986	−1.01	−0.94	0.4014	5.55	+2.02
Italy	990.002	986.2863	−0.38	−0.37	990.3124	4.7	+1.17
Luxembourg	20.6255	20.6247	+0.00	−0.03	20.6282	3.58	+0.05
Netherlands	1.12674	1.1275	+0.07	+0.10	1.1272	3.45	−0.08
Portugal	102.505	102.3426	−0.16	−0.18	102.5703	4.17	+0.64
Spain	85.0722	84.8608	−0.25	−0.31	85.0831	4.28	+0.75
Germany	1		+0.00	+0.00		3.53	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes, forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (August 25 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

Aug 25	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	−0.05	+0.04	+0.22	+0.18	+0.48	−0.08
Belgium	−0.06	−0.02	+0.17	+0.14	+0.24	+0.04
Finland	−0.13	+0.08	+0.18	+0.08	−0.33	−0.78
France	−0.10	−0.11	−0.03	−0.03	+0.08	−0.16
Germany	−0.28	−0.09	+0.04	−0.18	+0.05	−0.21
Ireland	+0.64	+0.03	+0.16	+0.24	+0.36	+0.44
Italy	+0.38	+0.28	+0.35	+0.34	+0.38	+0.17
Luxembourg	−0.06	−0.02	+0.17	+0.14	+0.24	+0.04
Netherlands	−0.13	−0.06	+0.05	+0.02	+0.10	−0.12
Portugal	+0.16	+0.20	+0.28	+0.27	+0.69	+0.31
Spain	+0.12	+0.08	+0.30	+0.36	+0.43	+0.25
"Outs"						
Denmark	+0.74	+0.54	+0.82	+0.53	+0.56	+0.65
Greece	+7.65	+5.01	+4.37	+3.22	+2.71	+2.26
Sweden	+0.72	+0.74	+0.77	+0.61	+0.62	+0.17
UK	+2.78	+1.75	+1.55	+1.00	+0.63	−0.02

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

Aug 25	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	109.690	4.48	−0.07	−0.39	+0.12
France (Rep of)	04/08	5.250	N/A	107.300	4.31	−0.10	−0.46	−0.05
Italy (Rep of)	05/08	5.000	AA	103.590	4.54	−0.10	−0.41	+0.18
Portugal (Rep of)	06/08	5.375	AA-	105.560	4.65	+0.05	−0.26	+0.29
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	102.960	4.13	−0.04	−0.40	+0.12
Gen Electric Cap Crp	10/04	5.500	AAA	107.030	4.17	−0.14	−0.47	+0.07
Oest Kontrollbank	04/08	5.250	AAA	105.360	4.55	−0.05	−0.36	+0.19
Cred Local de France	04/08	5.250	AA+	104.310	4.68	−0.12	−0.37	+0.32
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	102.617	4.01	−0.06	−0.39	+0.14
Cred Foncier France	03/04	8.375	A	117.235	4.76	−0.07	−0.34	+0.66
Euro Inv Bank	04/04	5.250	AAA	106.080	4.02	−0.10	−0.43	−0.08
ABN Amro Hldg. NV	04/07	6.375	AA-	111.296	4.75	−0.09	−0.41	+0.43

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

EUROZONE CREDIT SPREADS vs ECU

Aug 25	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.22	+0.06	+0.04
France Telecom	AA+	11/06	6.250	FRF	+0.19	+0.17	+0.15
Halifax	AA	07/07	5.625	DEM	+0.15	+0.16	+0.17
Ing Bank NV	AA-	01/08	5.500	NLG	+0.22	+0.17	+0.16
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.39	+0.33	+0.27
Cred Foncier	A	02/03	7.250	DEM	+0.50	+0.31	+0.31
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.39	+0.42	+0.35
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.30	+0.33	+0.32
Bank of China	BBB	07/99	7.125	DEM	+3.46	+1.63	+0.66
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+1.03	+0.89	+0.64
Korea Dev Bank	BB+	11/02	5.625	FRF	+7.80	+8.59	+5.79
Argentina	BB	04/06	8.125	XEU	+5.19	+3.83	+3.18

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ALCOHOLIC BEVERAGES · AUTOMOBILES · BANKS RETAIL · BREWERIES, PUBS & RESTAURANTS · BUILDING MATERIALS & MERCHANTS · CHEMICALS · CONSTRUCTION · DISTRIBUTORS · DIVERSIFIED INDUSTRIALS · ELECTRICITY · ELECTRONIC & ELECTRICAL EQPT. · ENGINEERING · EXTRACTIVE INDUSTRIES · FOOD PRODUCERS · GAS DISTRIBUTION · HEALTH CARE · HOUSEHOLD GOODS & TEXTILES · INFORMATION TECHNOLOGY · INSURANCE · INVESTMENT COMPANIES · LEISURE & HOTELS · LIFE INSURANCE · MEDIA · OIL, EXPLORATION & PRODUCTION · OIL, INTEGRATED · OTHER FINANCIAL · PAPER PACKAGING & PRINTING · PHARMACEUTICALS · PROPERTY · RETAILERS, FOOD · RETAILERS, GENERAL · SUPPORT SERVICES · TELECOMMUNICATIONS · TOBACCO · TRANSPORT · WATER

Notes: Price data and market capitalisation supplied by FTSE International. [illegible]

U.S. $250,000,000
Canadian Imperial Bank of Commerce
(A Canadian Chartered Bank)
Floating Rate Subordinated Capital Debentures due 2085

Notice is hereby given that for the six months interest period from August 26, 1998 to February 26, 1999 the Debentures will carry an interest rate of 5.8125% per annum. The interest payable on the relevant interest payment date, February 26, 1999 against Coupon No. 25 will be U.S. $297.08 and U.S. $2,970.80 respectively for Debentures in denominations of U.S. $10,000 and U.S. $100,000.

By: The Chase Manhattan Bank
London, Agent Bank
CHASE
August 26, 1998

INDIA EXPATRIATES BOLSTER RESERVES

Resurgent bond issue raises $4.2bn

By Krishna Guha in Bombay

State Bank of India yesterday announced that its issue of savings bonds to expatriate Indians – dubbed Resurgent India bonds – had raised $4.2bn.

M. S. Verma, chairman, said it was the largest debt issue in Indian history, with 74,000 subscriptions from non-resident Indians in 27 countries averaging about $50,000 each.

The bonds were launched in an effort to bolster India's foreign exchange reserves and strengthen confidence in the aftermath of the country's nuclear tests, which triggered international sanctions led by the US.

"It is heartening that every single concentration of Indian population in the world has contributed to this programme," Mr Verma said.

More than half the total was raised from Indians in the Middle East. Expatriates in south-east Asia accounted for almost 20 per cent, while the balance came from the US and Europe.

The US share was smaller than expected, after delays in obtaining regulatory clearance in some states.

"Non-resident Indians world-wide have very great faith in the fundamentals of the Indian economy," said Mr Verma. He said applications jumped from 35,000 to 74,000 over the last week, vindicating the decision to keep the issue open.

The issue, launched on August 5, was extended by a week, prompting fears that the amount raised was falling short of expectations.

State Bank of India intends to keep about $1bn in foreign currency and swap the remainder into rupees, giving the Reserve Bank, India's central bank, $3bn in foreign exchange reserves.

The money raised is intended for investment in infrastructure. State Bank will lend to some projects directly, while it will also invest in government securities and offer a share of the funds to India's project finance institutions.

Economists said the inflow of funds would help support the rupee, but questioned the cost. "In rupee terms you are looking at a 7.75 per cent coupon and about 10 per cent depreciation each year," said the chief economist at one foreign bank in Bombay.

Many doubt that State Bank and the government, which shoulders all but one percentage point of the foreign exchange risk per annum, can find infrastructure projects with an equivalent rate of return.

However, Mr Verma said the rate compared favourably with recent sovereign bond issues. "Argentina, Brazil, Turkey, Poland and Mexico all paid much more than we have paid."

State Bank will use its newly acquired dollar funds to price loans aggressively. "We will lower the benchmark lending rates," said Mr Verma. However, analysts doubt how many foreign banks will follow State Bank in offering tighter spreads to Indian borrowers given current sentiment about lending to emerging markets.

Technical squeeze lifts German bund prices

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

GERMAN BUNDS raced ahead yesterday as a result of a technical squeeze, leaving other European markets trailing. Safe-haven buying remained a factor, but a rush to settle open positions in the futures market was the main driver, dealers said.

The September future settled 1.24 higher at 114.00 in a hectic session on the DTB, with nearly 800,000 contracts traded by early evening, after touching 114.07, a high for the contract. The squeeze was the result of a shortage of deliverable bunds to meet all the open positions in the September contract.

Although analysts said the market looked overbought at that level, there was considerable underlying support for bunds from the turmoil in Russia and good news on the domestic inflation front. Further evidence that German inflation is non-existent came yesterday when import prices showed a fall in July.

In the cash market, the yield on the benchmark 10-year bund continued to fall, ending at 4.16 per cent, one tick above its lowest level. Bunds outperformed US Treasuries, with the spread widening to 117 basis points from an overnight level of 109 points.

Other European markets rose slightly but all sharply underperformed bunds. Ten-year spreads on both Italian BTPs and Spanish bonos widened by 8 basis points relative to the German market, undoing some of the European monetary union-inspired convergence seen earlier this year.

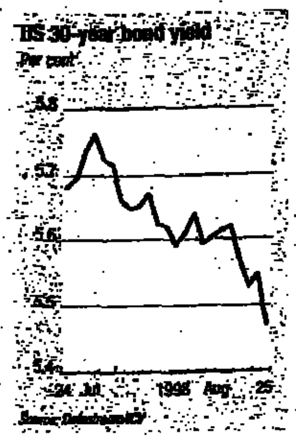
UK GILTS endured a choppy session, again largely on technical factors emanating from the sterling swaps market. Early yesterday the swap spread had soared above 100 basis points as investors betting on spread-narrowing tried to unwind positions that analysts said had become extremely expensive to hold.

The market settled down later, but the spread still ended 3 basis points higher at 87 basis points for both the 10 and five-year sectors.

"Investors who put trade plays on have been forced out of their positions because they were too painful to maintain," said Kevin Adams at Barclays Capital.

US 30-year bond yield

Per cent



Source: Datastream/ICV

The September gilt future settled 0.19 up at 111.23, well below the day's high of 111.65, with nearly 130,000 contracts traded on Liffe. The 10-year spread between gilts and bunds also jumped to 138 basis points, after dipping slightly below 130 basis points in very early trading.

US TREASURIES remained in a tight trading range in the morning session in spite of a rally in US shares and the latest strong economic data reports. The market was also awaiting the release of Russia's latest debt policy plan.

The 30-year bond, the benchmark for long-term interest rates, rose $\frac{1}{32}$ to $100\frac{25}{32}$, yielding 5.464 per cent. Among shorter-term issues the two-year note was unchanged at $100\frac{1}{32}$, yielding 5.200 per cent, and the 10-year note climbed ⅛ to $102\frac{25}{32}$, sending the yield down to 5.271 per cent.

Since late last week, when Russian instability sparked a run on Treasuries and sent the long bond yield to record lows, the market has shown little sign that investors are ready to take profits.

Even a 100 point morning gain in the Dow Jones Industrial Average did little to draw investors out of Treasuries, as has happened in the past.

"It's surprising that bonds haven't taken out a lot of that flight to quality bid, despite the strong economic data," said Terrence Pigott, head of government trading at Daiwa Securities America.

Beating expectations, existing home sales reached a record 4.93m in July, a 4 per cent rise. Consumer confidence fell in August but remained strong. Such strength would normally trigger Treasury selling, but most investors are convinced the Federal Reserve will not raise interest rates in the current environment.

Liffe in race against time to make electronic connection

The pressure is on the London exchange to bring forward the introduction of its new daytime trading system, writes **Edward Luce**

With just a few weeks before the London International Financial Futures and Options Exchange introduces its daytime electronic trading system, the markets are increasingly focusing on the merits of the competing systems on offer.

Recent problems on Matif, the French derivatives exchange, where trading on its NSC-VF system has had to be suspended on several recent occasions owing to wild price volatility, have concentrated minds.

Matif, which experienced the problems on its gilt and French government bond futures, put the volatility down to teething problems with its pricing system. Either way, it highlights some of the unforeseen difficulties Liffe could experience when it goes electronic.

Germany's Deutsche Terminbörse, which boasts by far the longest-running screen-based system, is also believed to have encountered similar difficulties, although less recently than Matif.

"Everybody's been focusing on the benefits of electronic trading, but there are also icebergs out there which have not yet been spotted," said one derivatives head at a US investment bank in London.

Liffe says that Liffe Connect, its new system, will be able to execute far more sophisticated orders than can the DTB's ageing screen-based system.

This could include "multiple leg" trades such the "butterfly", where several orders can be executed simultaneously. Such technology is essential for the trading of short-term interest rate contracts and options.

The DTB's main contract, the future on the 10-year German government bond, is a relatively simple product that can be traded without complex manoeuvres.

"The DTB system isn't really equipped to undertake sophisticated manoeuvres such as the butterfly," said one trader. "This is why the short-term interest rate contract on the D-Mark is still almost exclusively traded on Liffe's trading floor."

However, Liffe is faced with two basic problems. First, in the absence of a proper daytime electronic system, volume continues to flow to Frankfurt. No matter how sophisticated Liffe Connect is, it could be introduced too late.

The system will be only be made available for trading in equity options this November. Other contracts, including the vitally important bond and interest rate futures, will have to wait until mid-1999 before the chance to go electronic.

"There's a danger of Liffe closing the stable door after the horse has bolted," said one broker in London.

Second, there is no guarantee Liffe Connect will be as sophisticated as the market hopes it will be.

The pressure is on Brian Williamson, the new (and the first full-time) chairman of Liffe, to introduce the system earlier than mid-1999 for all other products.

The danger is that this could lead to the cutting of corners in what is a mind-numbingly painstaking development process.

"The best guess is that Liffe Connect will be the most sophisticated system because it will – by definition – be the next generation," said Matthew Fosh of SGF Chase, a brokerage house. "But judging by the sophistication of existing systems that doesn't necessarily mean very much."

One caveat that Liffe might well worth observe is that many in the market believe the emphasis on developing an "open architecture" screen-based system is exaggerated.

Open architecture makes it easier for users to interface with other screen-based systems, including other exchanges. But given the technological revolution also taking place among users themselves, such a goal might be over-stated.

Edward Condon, director at investment bank CSFB, says banks themselves will increasingly be providing users with integrated systems.

CSFB's Prime Trade, launched this year, enables its clients to trade products on every exchange from one screen, either through the internet or through a direct line to CSFB.

As a clearing member of each exchange, CSFB deals with all the back-office details itself. For the end-user, this is as open as the architecture can get. Yet in practice, the user is routeing orders to several incompatible systems from one screen.

Quite what this means for Liffe is another matter. Only one thing is certain: the market is not standing still while Liffe's new system gestates.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 25	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.5182	5.33	+0.03	+0.07	+0.13	+0.20
	08/08	8.750	123.4581	5.61	+0.05	+0.07	+0.09	-1.22
Austria	07/00	5.875	103.8300	3.73	-0.04	-0.20	-0.33	-0.51
	01/08	5.000	104.2400	4.43	-0.10	-0.19	-0.39	-1.32
Belgium	01/00	4.000	100.4900	3.62	-0.02	-0.15	-0.37	-0.40
	03/08	5.750	109.6900	4.49	-0.07	-0.20	-0.39	-1.33
Canada	03/00	5.000	99.5500	5.31	-	-0.03	+0.09	+1.42
	06/08	6.000	103.1500	5.58	+0.02	-0.03	+0.20	-0.47
Denmark	11/00	9.000	109.2100	4.52	+0.32	+0.34	+0.15	-0.09
	11/07	7.000	115.5400	4.86	+0.14	+0.11	-0.06	-1.37
Finland	01/99	11.000	102.8342	3.24	-0.07	-0.19	-0.36	-0.69
	04/08	6.000	112.0110	4.44	-0.08	-0.21	-0.42	-1.50
France	01/00	4.000	100.4800	3.62	-0.03	-0.15	-0.26	-0.49
	04/05	7.500	119.8000	4.04	-0.09	-0.25	-0.48	-1.19
	04/08	5.250	107.3000	4.31	-0.10	-0.26	-0.46	-1.31
	04/29	5.500	106.5500	5.07	-0.02	-0.12	-0.25	-1.26
Germany	03/00	4.000	100.6500	3.55	-0.07	-0.16	-0.34	-0.42
	10/05	6.500	114.3700	4.14	-0.07	-0.23	-0.47	-1.21
	01/08	5.250	108.2300	4.17	-0.11	-0.28	-0.51	-1.55
	01/28	5.625	109.2700	5.01	-0.06	-0.11	-0.27	-1.41
Ireland	10/01	6.500	106.8200	4.14	-0.11	-0.19	-0.43	-1.34
	08/08	6.000	110.8500	4.62	-0.04	-0.12	-0.36	-1.34
Italy	04/01	4.500	101.0100	4.08	-0.03	-0.15	-0.29	-1.98
	05/03	4.750	102.1300	4.24	-0.04	-0.16	-0.34	-1.97
	05/08	5.000	102.8900	4.64	-0.04	-0.10	-0.25	-1.90
	11/27	6.500	117.2300	5.32	+0.01	-0.01	-0.13	-1.87
Japan	03/00	6.400	109.2500	0.41	-0.01	-0.02	-0.18	-0.15
	06/03	4.500	118.9200	0.83	-	-0.22	-0.23	-0.67
	04/05	3.000	112.2300	1.19	-	-0.02	-0.24	-0.80
	03/18	2.700	110.7700	2.03	-	-0.03	-0.26	-0.96
Netherlands	05/00	8.000	108.8800	3.66	-0.02	-0.16	-0.33	-0.47
	07/08	5.250	108.9500	4.37	-0.08	-0.20	-0.40	-1.22
New Zealand	02/01	8.000	102.7795	[illegible]	+0.04	-0.23	-0.47	-1.05
	11/06	8.000	111.7802	6.13	+0.05	-0.17	-0.34	-1.05
Norway	01/99	9.000	100.5200	[illegible]	-	+1.47	+1.98	+2.70
	01/07	6.250	102.7000	5.57	-0.10	+0.20	+0.20	-0.56
Portugal	01/00	5.375	102.3400	3.90	-0.12	-0.24	-0.47	-1.49
	06/08	5.375	105.6900	4.64	-0.04	-0.14	-0.32	-1.75
Spain	04/00	6.750	104.5400	3.82	-0.04	-0.16	-0.32	-1.37
	01/08	6.000	108.9700	[illegible]	-0.03	-0.07	-0.23	-1.69
Sweden	05/00	10.250	109.1400	4.46	+0.14	+0.24	+0.23	-0.85
	05/08	6.500	111.6250	4.95	+0.24	+0.12	+0.05	-1.64
Switzerland	03/02	5.000	104.6000	1.72	-0.02	-0.04	-0.27	+0.29
	08/07	4.500	114.7300	2.65	-0.05	-0.12	-0.34	-0.99
UK	11/01	7.000	102.3518	6.17	-0.05	-0.16	-0.35	-0.86
	12/03	6.500	101.5310	[illegible]	-0.07	-0.15	-0.56	-1.39
	12/07	7.250	113.0000	5.45	-0.02	-0.14	-0.50	-1.67
	12/28	6.000	111.0063	5.21	-0.02	-0.12	-0.35	-1.83
US	05/00	5.500	100.4412	5.21	-	-0.13	-0.25	-0.75
	05/03	5.500	101.1296	5.22	-0.02	-0.17	-0.29	-1.15
	05/08	5.625	102.0532	5.27	-0.02	-0.14	-0.19	-1.12
	11/27	6.125	108.4063	5.44	-0.01	-0.22	-0.14	-1.13
ECU	02/01	4.000	100.3100	3.92	-0.02	-0.15	-0.35	-0.74
	04/08	5.250	106.9300	4.35	-0.11	-0.27	-0.41	-1.63

London closing. *New York mid-day. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents. Source: Interactive Data/FT Information

10 YEAR BENCHMARK SPREADS

Aug 25	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.64	+1.46	+0.37	New Zealand	6.13	+1.95	+0.86
Austria	4.54	+0.36	-0.73	Norway	5.33	+1.15	+0.06
Belgium	4.50	+0.32	-0.77	Portugal	4.63	+0.45	-0.64
Canada	5.58	+1.40	+0.31	Spain	4.72	+0.54	-0.55
Denmark	4.89	+0.71	-0.38	Sweden	4.97	+0.79	-0.30
Finland	4.45	+0.27	-0.82	Switzerland	2.65	-1.53	-2.62
France	4.33	+0.15	-0.94	UK	5.36	+1.18	+0.09
Germany	4.18	-	-1.09	US	5.27	+1.09	-
Ireland	4.60	+0.42	-0.67	ECU	4.36	+0.18	-0.91
Italy	4.70	+0.52	-0.57				
Japan	1.44	-2.74	-3.83				
Netherlands	4.38	+0.20	-0.89				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Aug 25	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	95.4558	8.53	-0.32	+1.04	+3.38
Poland	07/04	7.125	BBB-	102.9857	6.50	-0.32	+0.13	+1.32
Russia	06/07	10.000	B+	21.0000	36.57	+2.55	+20.91	+31.32
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	79.7500	12.49	-1.13	+2.42	+7.03
Brazil	05/27	10.125	BB-	66.2500	15.38	-0.92	+4.21	+9.92
Mexico	05/26	11.500	BB	94.5000	12.18	-0.78	+2.57	+6.73
■ ASIA								
China	07/06	7.750	BBB+	95.8952	8.48	-0.32	+1.48	+3.25
Philippines	10/16	8.750	BB+	82.0873	11.06	-0.32	+1.76	+5.77
Thailand	04/07	7.750	BBB-	81.4701	11.19	-0.32	+1.73	+5.94
■ AFRICA/MIDDLE EAST								
Lebanon	[illegible]	9.125	BB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	[illegible]	8.375	BB+	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Turkey	[illegible]	10.000	B	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ BRADY BONDS								
Argentina	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Venezuela	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	108.01	108.82	+0.86	108.89	107.97	172,049	128,236
Dec	107.51	108.33	+0.83	108.22	107.51	9,113	19,547

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Sep	PUTS Oct	PUTS Dec
102	6.82	6.33	6.33	-	-	0.03
103	5.82	5.33	5.34	-	-	0.08
104	4.82	4.33	4.41	-	-	0.12
105	3.82	3.34	3.52	-	0.02	0.22

Est. vol. total, Calls 11,136 Puts 2,238. Previous day's open int., Calls 58,151 Puts 67,722

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	112.76	114.00	+1.24	114.07	112.76	7779	64993
Dec	112.65	112.94	+1.20	112.98	112.48	792	2197

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	112.75	113.49	+0.64	114.07	112.75	815,410	1055,192
Dec	111.96	112.49	+0.60	112.98	111.84	111,095	151,502

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	107.85	108.14	+0.30	108.59	107.81	286,483	316,073
Dec	107.25	107.45	+0.19	107.86	107.24	24,851	36,999

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	123.05	123.24	+0.24	123.43	122.80	26584	97044
Dec	109.26	109.43	+0.22	109.60	109.26	2934	10982

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Oct	CALLS Nov	PUTS Oct	PUTS Nov
10800	0.66	0.79	0.23	0.36
10850	0.38	0.52	0.45	0.59
10900	0.19	0.32	0.76	0.89

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	112.39	112.78	+0.50	112.82	112.36	115,072	115,072
Dec	112.91	113.05	+0.30	112.91	112.91	848	530

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	104.85	104.75	+0.17	104.90	104.75	313	2282
Dec	105.05		-	105.05	105.05	7	0

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	111.12	111.23	+0.19	111.65	110.96	127248	117432
Dec	111.40	111.51	+0.25	111.95	111.29	38399	47381

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
11150	0.76	1.00	1.22	0.75	0.99	1.21
11200	0.54	0.77	0.99	1.03	1.26	1.48
11250	0.37	0.57	0.80	1.36	1.56	1.79

Est. vol. total, Calls 2823 Puts 1915. Previous day's open int., Calls 31707 Puts 13261

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	125-08	125-04	+0-02	125-17	124-26	483,098	752,111
Dec	124-27	124-31	+0-03	125-15	124-21	59,607	324,845
Mar	124-24	124-16	-	124-24	124-13	1,408	55,884

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	134.75	134.90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	134.47	134.59	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	107.48	+0.86	-	-	0	18

US CORPORATE BONDS

Aug 24	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NY Tel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CWE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ FINANCIALS								
GECC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banc One	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US West	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ INDUSTRIALS								
WMX Tech	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wal Mart	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dayton Hud	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ AGENCIES								
FHLMC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SLMA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FNMA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FFCB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ HIGH YIELD								
Stone Cont	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AK Steel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacafic	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NY closing. Standard & Poor's ratings. Yields: local market standard. Source: Interactive Data/FT Information

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	[illegible]	One month	[illegible]	Two year	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]	Three year	[illegible]
Fed.funds	[illegible]	Three month	[illegible]	Five year	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]	10-year	[illegible]
		One year	[illegible]	30-year	[illegible]

INTERNATIONAL BONDS

Aug 25	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	108.9200	4.46	-	-0.34	+0.37
Spain	01/07	5.750	AA	108.4400	4.51	+0.05	-0.30	+0.42
Philip Morris	03/04	5.375	A	102.5700	4.83	+0.10	-0.17	+0.84
Finland FRN	09/02	3.629	AA	100.5855	3.19	-0.15	-0.57	-0.51
■ EURO FFR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ EURO ITL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ EURO £	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ EURO $	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ EURO YEN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Aug 25	Day's chge %	Mon Aug 24	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 5–15 years (20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Over 15 years (5)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks (48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-linked					
6 Up to 5 years (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Over 5 years (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 All stocks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average gross redemption yields are shown above.

FT Fixed Interest Indices

	Aug 25	Aug 24	Aug 21	Aug 20	Aug 19	Yr ago	High*	Low*
Govt. Secs. (UK)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen and commodity currencies drop

MARKETS REPORT

By Simon Kuper

The yen sank yesterday as Kiichi Miyazawa, Japan's finance minister, again contradicted his colleagues' threats to intervene for the yen.

He said that although Japan would intervene for the yen if markets were disrupted, he saw no such disruption now. This undid weeks of work by policymakers – including Mr Miyazawa himself – who had been warning that Japan was poised to intervene. The yen, which had been rallying against the dollar, fell back. Neil Parker, treasury economist at Royal Bank of Scotland in London, said: "He makes these comments that seem totally bizarre."

Mr Miyazawa's about-turn yesterday recalled his first words in office last month. At a late-night press conference, he had said he thought Japan should stop intervening for the yen and the stock market. The currency had instantly plunged.

He and numerous officials then spent several weeks insisting that Japan still believed in intervention. On Monday Eisuke Sakakibara, the senior finance ministry official known as Mr Yen, had issued the sternest warnings yet to dollar bulls. So the market was surprised when Mr Miyazawa contradicted him yesterday.

The market concluded that Tokyo remains divided over intervention. The yen rose within its recent Y141-Y147 range against the dollar, climbing Y0.9 to close in London at Y144.7.

Yet dollar/yen remains, bizarrely, a sideshow. The market is gripped by the slides in the "commodity" currencies: those of Norway, Canada, Australia, Russia and other countries that export rapidly cheapening commodities.

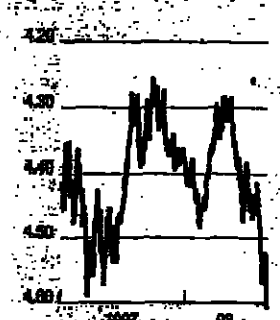
The Russian rouble, which was allowed to float last Monday, yesterday suffered its biggest fall since October 1994. It was fixed 10 per cent lower at 7.88 to the dollar, still well above its rate in retail banks, after trading was twice suspended. The Polish zloty suffered with it.

The Norwegian krone fell again, a day after Norway had raised interest rates and indicated that it would stop trying to stabilise the currency for the moment. The krone and the Swedish krona, which it again dragged down, hit their lowest levels against the D-Mark for two-and-a-half years.

Venezuela raised short-term interest rates to 90 per cent to support the bolivar. The Australian dollar hit another 12-year low.

Swedish krona

Against the D-Mark (SKr per DM)



Source: Datastream/ICV

In Canada it was a case of the dog that did not bark. The Bank of Canada surprised traders by *not* intervening for its currency, which promptly performed better than usual, dropping only 0.2 cents to C$1.550 against the US dollar.

■ This is no time *to* be an emerging market currency. The devaluation of the rouble has kept pressure on pegged currencies all over the world.

Yet Desmond Lachman, head of emerging markets research at Salomon Smith Barney in New York, expects the major pegs – those of Hong Kong, Brazil and Argentina – to survive. He notes for instance that Brazil, whatever its problems, has strong foreign exchange reserves.

The two pegs most likely to go are those of Venezuela and Colombia, says Mr Lachman. He thinks it is only a matter of time before Venezuela devalues, even if the country might be able to hold out until after its presidential elections in December. Inflation is running at close to 40 per cent, the oil price has sunk, and yet the currency has barely moved so far. If Venezuela devalues its close trading partner Colombia might have to follow suit, says Mr Lachman.

But he thinks that the main effect of the rouble's crash and Russia's partial default will be more subtle. The lesson of last Monday, says Mr Lachman, is that the Group of Seven and the International Monetary Fund will not step in to save every country from collapse. Previously many investors had thought that Russia was too big to be allowed to devalue and default.

This means that holding emerging market bonds turns out to be riskier than it seemed. Investors will therefore demand higher interest rates from countries such as Brazil, says Mr Lachman.

■ POUND IN NEW YORK

Aug 25	—Latest—	– Prev. close –
£ spot	1.6400	1.6405
1 mth	1.6371	1.6375
3 mth	1.6319	1.6325
1 yr	1.6212	1.6123

■ OTHER CURRENCIES

Aug 25	£	$
Czech Rp	54.0114 - 54.1116	32.9740 - 33.0160
Hungary	369.091 - 369.840	225.336 - 225.650
Iran	4917.00 - 4914.09	3000.00 - 3000.00
Kuwait	0.5032 - 0.5043	0.3072 - 0.3077
Peru	4.8518 - 4.8580	2.9620 - 2.9640
Poland	6.0524 - 6.0725	3.6950 - 3.7050
Russia	14.0858 - 15.2427	8.6000 - 9.3000
U.A.E.	6.0160 - 6.0200	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
95125	0.110			0.045		
95250	0.050	0.030	1.115	0.110	0	0.005
95375	0.020			0.205		

Est. vol. total, Calls 5100 Puts 2800. Previous day's open int., Calls 153686 Puts 142858

BASE LENDING RATES

[illegible]

Wool producers in uproar over stockpile freeze

Critics have warned that the Australian government's move could lead to greater protectionism, writes **Gwen Robinson**

Penned in: deadlock over the stockpile has proved embarrassing for the government Wildtrack Media

The Australian government's decision earlier this month to freeze wool sales from the country's stockpile for 12 months has caused uproar in the wool industry.

The decision overturns a commitment to maintaining stockpile sales and has now run into legal barriers, fuelling uncertainty over supplies at a time when international wool prices are weak and demand is faltering.

The Australian Council of Wool Exporters, one of the industry's main bodies, said yesterday the government was "damaging Australia's reputation" with its prevarication over the wool stockpile.

After announcing the stockpile freeze in early August, the government found it could not legally enforce the decision without calling a special session of parliament to approve the changes.

However, indications that John Howard, prime minister, intends to call an early election in October make it unlikely that parliament will be reconvened to pass the legislation necessary to freeze stockpile sales for the October quarter.

The stockpile, effectively a quota system, was established in 1991 at a peak level of 4.7m bales after the government abandoned its wool reserve price scheme.

The old scheme, established in 1974, was responsible for the massive pile of unsold wool, requiring the government to purchase bales that could not achieve a set minimum price. The government bought the bales at the set price, warehoused them and resold them when prices improved.

The system faltered in the late 1980s when wool producers were setting high base prices. Market prices plunged as recession hit, the stockpile swelled and weak prices prevented the wool being resold.

The new stockpile system was intended to stabilise prices and clear the backlog of debt with quarterly sales of stockpiled wool.

Under the scheme, Wool International, a statutory authority, was appointed to oversee stockpile sales at a rate of at least 182,000 bales every three months. When wool prices slid last year, the government reduced the sale rate to 90,000 bales a quarter.

However, the system has run into problems this year amid the Asian economic downturn, weakening European demand and strong auction supplies in the domestic wool market.

As prices fell, the government proposed to freeze stockpile sales in order to reduce supply and increase prices.

The plan divided the industry, proving unpopular among key wool growing and exporting associations but receiving strong support from some regional wool growers' groups.

An industry review in late July rejected the idea of freezing stockpile sales and the government agreed to abandon the proposal. Days later, it abruptly reversed its decision and announced the 12-month freeze.

The decision was seen as a direct response to the growing popularity of One Nation, an extremist party that has made big gains in rural areas on populist policies, including trade protectionism. The government, a coalition of the Liberal and National parties, saw it as a way to win favour among wool producers.

Critics warned the decision would lead to greater protectionism and a return to the policies which originally created the mountain of unsold wool. The uncertainty over policy changes could affect Australia's image as a reliable wool supplier, they said.

Wool exporters also feared the freeze would open the way for competitors in Australia's traditional wool markets and encourage a shift to cheaper, synthetic fibres

After the freeze was announced, wool prices reached a four-year low before climbing. They faltered when news of the legal impasse created further confusion, but have recovered in the past week. Industry leaders, warn that the recovery will be temporary until the issue is resolved.

Wool International, meanwhile, suspended sales following the government's decision. Under its charter, however, the body must clear 90,000 bales by the end of September and sell at least another 90,000 bales in the final quarter. The stockpile, now at 1.1m bales, is due for depletion by the end of 2000.

Dick Warburton, the body's chairman and an outspoken critic of the government's decision, warned that sales would have to resume unless legislative changes were made.

"We have no intention of defying the government, but we do have an intention to comply with the law," he said.

Tim Fischer, deputy prime minister, further angered wool groups yesterday by suggesting that Wool International could proceed with sales for the current quarter – about 16,000 bales must be sold to meet the quota – and then wait for legislative changes in the final quarter.

The deadlock over the stockpile has proved embarrassing for the government, highlighting the hastiness of the decision.

"It is becoming a source of increasing frustration that members of the trade cannot respond adequately to requests from overseas principals and customers as to what is going to happen with the proposed freezing of the Wool International stockpile," Wesfarmers Dalgety, a pastoral house, said in a weekly wool outlook.

Freight rates hit by tanker over-supply

By Gary Mead

The global tanker market is looking increasingly oversupplied in the context of collapsed crude oil prices and bulging international inventories.

Freight rates for tankers have fallen almost 40 per cent in the past six weeks; the outlook for 1999 is for further market weakness.

According to the latest figures from shipbrokers SSY, in the first six months of 1998 the world tanker fleet grew by 3.6m tonnes and at the end of July 454 new ships, totalling 46.3m tonnes and representing 16.7 per cent of the existing fleet, were on the order books of the world's shipbuilders.

A total of 67 new ships have been launched so far this year, with another 113 due before the end of the year. In 1999 there are 234 tankers due to be floated, the biggest delivery of new vessels since 1976.

The impact of all these new tankers is bound to depress freight rates even further. Analysts are now beginning to forecast, in general terms, the collapse of some of the more debt-exposed of the world's ship owners.

The biggest order books for new tankers are with South Korean and Japanese construction yards, with 153 and 120 ships respectively.

China is in third place, with 44 ships, but Chinese shipyards are now finding it very difficult to compete for new orders, largely because of the relative strength of the renminbi, the Chinese currency.

"The scale of the problem now facing tanker owners is given by a comparison of freight rates on one important route, the Arabian Gulf-Japan. On July 10 the chartering of a 250,000-tonne tanker for this route cost about $46,000 a day; by this week the rate had fallen to about $28,000," says John Banaszkiewicz, director of SSY Futures, the derivatives wing of SSY.

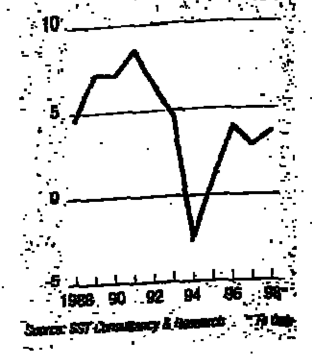
Earlier this year, the tanker market was being seen as the saviour of shipowners, as the bottom fell out of the dry cargo freight market.

"Low oil prices enticed storage refineries to build inventories to record high levels; the recent collapse in tanker freight rates is seen by many as an indication that there is scarcely room left for another barrel of oil to be stored," says one industry specialist.

With the world oil market now at saturation point, tanker owners are hoping promised production cuts by the Organisation of Petroleum Exporting Countries will actually take hold and bring the global crude oil market back to balance.

The other main hope is that La Niña – a reversal of the disruptive El Niño abnormal global weather system – will arrive with a vengeance, and induce a severe northern hemisphere winter, giving a desperately needed boost to demand for crude oil and distillates.

World tanker fleet
Net change (m deadweight)



Source: SSY Consultancy & Research FT Graphic

Brent blend crude oil hangs on to small gains

MARKETS REPORT

By Gary Mead and Kenneth Gooding

Brent crude oil prices held on to their small gains of Monday on the International Petroleum Exchange, but traders were not hopeful the $13 a barrel mark would be breached, given the massive global inventories now in the market.

The October-dated Brent crude contract was $12.60 a barrel in late trading, compared with Monday's close of $12.55, while on New York's Mercantile Exchange dealers were awaiting the latest figures from the American Petroleum Institute.

A modest drop in crude stocks was expected by most oil specialists.

On the London International Financial Futures Exchange the day was busier than of late in cocoa futures, with total trading volume of 15,713 lots.

September cocoa closed down £6 at £1,019 a tonne, the lowest since March 6 1997, with investment fund selling the dominant feature of the day.

Coffee futures staged a minor rally on the back of US investment fund buying. The September contract ended $45 higher at $1,678 a tonne, with a total of 7,773 lots traded for all months.

The trend in copper stocks on the London Metal Exchange has gone sharply in reverse following the 133,000 tonnes drop between February and July.

Another rise of 3,350 tonnes was reported yesterday, following one of 6,825 tonnes on Monday. This means the exchange's copper stocks have jumped by 3.6 per cent to 295,675 tonnes so far this week.

However, prices have been relatively unmoved. Three-month copper closed last night at $1,634 a tonne, down $4 a tonne.

"Current prices are already discounting something close to a recession, with total stocks at about 7½ weeks of consumption, not the present 4½ weeks," said Alan Williamson, analyst at Deutsche Bank Research.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1329.5-30.5	1350-51
Previous	1334.5-5.5	1354-5
High/low		1356/1345
AM Official	1327-8	1346-8.5
Kerb close		1349-50
Open int.	293,478	
Total daily turnover	58,751	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1147-52	1180-82
Previous	1152-7	1182-7
High/low		1182/1170
AM Official	1140-2	1171-2
Kerb close		1180-85
Open int.	7,761	
Total daily turnover	1,003	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	[illegible]	538-70
Previous	[illegible]	538.5-9.0
High/low	[illegible]	539/537
AM Official	[illegible]	537-7.5
Kerb close		536-7
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	[illegible]	4140-45
Previous	[illegible]	4165-70
High/low		[illegible]
AM Official	[illegible]	[illegible]
Kerb close		[illegible]
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ TIN ($ per tonne)

	Cash	3 mths
Close	[illegible]	[illegible]
Previous	[illegible]	[illegible]
High/low		[illegible]
AM Official	[illegible]	[illegible]
Kerb close		[illegible]
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	[illegible]	1044-44.5
Previous	[illegible]	1041-2
High/low		[illegible]
AM Official	[illegible]	[illegible]
Kerb close		1040-41
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	[illegible]	1641.2
Previous	[illegible]	1641-2
High/low		1652/1638
AM Official	[illegible]	1641-2
Kerb close		1634-5
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ LME AM Official £/$ rate: 1.6135

LME Closing £/$ rate: 1.6130

Spot: [illegible] 3 mths: [illegible] 6 mths: [illegible] 9 mths: 1.6135

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	[illegible]	[illegible]	[illegible]	[illegible]	38	843
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15,739
Oct	[illegible]	[illegible]	[illegible]	[illegible]	90	2,421
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,666
Dec	[illegible]	[illegible]	[illegible]	[illegible]	3,710	23,230
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,958
Total					[illegible]	63,332

PRECIOUS METALS

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

	$ price	£ equiv	SFr equiv
Gold (troy oz)			
Close	[illegible]		
Opening	[illegible]		
Morning fix	[illegible]	173.215	426.276
Afternoon fix	[illegible]	172.539	425.424
Day's High	[illegible]		
Day's Low	[illegible]		
Previous close	[illegible]		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	[illegible]	6 months	[illegible]
2 months	[illegible]	12 months	[illegible]
3 months	[illegible]		

Silver Fix	p/troy oz.	US cts equiv.
Spot	[illegible]	507.25
3 months	[illegible]	[illegible]
6 months	[illegible]	[illegible]
1 year	[illegible]	[illegible]

Silver Lending Rates: [illegible]

Gold Coins	$ price	£ equiv.
Krugerrand	[illegible]	[illegible]
Maple Leaf	[illegible]	[illegible]
New Sovereign	[illegible]	[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	283.3	-1.7	285.0	282.0	47	177
Oct	284.4	-1.6	285.7	283.3	250	12,062
Dec	286.9	-1.6	288.7	286.0	10,883	110k
Feb	288.7	-1.6	289.5	288.4	671	13,619
Apr	290.6	-1.6	290.4	289.8	310	10,936
Jun	292.5	-1.6	293.2	291.9	321	14,684
Total					12,643	198,125

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	366.8	-5.9	370.5	364.0	415	8,625
Jan	367.3	-5.9	368.5	365.5	13	1,051
Apr	367.3	-5.9	-	-	-	22
Jul	367.3	-5.9	-	-	14	16
Total					428	9,714

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	288.00	-3.00	290.50	288.00	111	1,363
Dec	282.50	-2.50	285.00	285.00	38	1,724
Mar	277.50	-2.50	-	-	1	25
Total					149	3,112

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	501.0	-11.5	513.0	499.0	5,542	30,527
Dec	505.5	-11.7	518.5	503.5	3,154	35,111
Jan	507.2	-11.6	-	-	-	30
Mar	508.0	-11.4	514.0	505.0	478	7,158
May	510.0	-11.0	-	-	-	1,721
Jul	511.9	-10.6	515.0	511.0	1	2,531
Total					9,182	82,085

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	13.71	+0.07	13.85	13.55	34,026	138k
Nov	13.95	+0.03	14.08	13.86	4,744	41,834
Dec	14.24	+0.03	14.32	14.10	3,947	60,222
Jan	14.43	-0.04	14.56	14.40	2,229	33,492
Feb	14.70	-0.01	14.70	14.70	328	18,495
Mar	14.93	-	15.00	14.91	220	15,373
Total					48,480	480,586

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	12.59	+0.04	12.70	12.48	22,768	85,481
Nov	12.85	+0.06	12.93	12.75	5,303	31,462
Dec	13.09	+0.04	13.18	13.00	3,970	40,550
Jan	13.28	+0.05	13.31	13.17	1,582	28,684
Feb	13.41	-0.07	13.50	13.41	115	17,320
Mar	13.67	+0.07	13.67	13.60	167	9,928
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	35.15	+0.39	35.40	34.89	12,479	24,040
Oct	36.15	+0.38	36.40	35.85	9,613	45,704
Nov	37.55	+0.25	37.75	37.35	2,270	19,694
Dec	39.00	+0.13	39.25	38.85	2,529	25,006
Jan	40.35	+0.18	40.60	40.20	852	25,651
Feb	41.30	+0.13	41.55	41.30	392	15,717
Total					28,390	202,015

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	104.75	+1.00	106.00	104.00	6,292	31,774
Oct	109.75	+0.75	111.00	109.00	4,842	28,783
Nov	113.75	+0.75	114.75	113.25	1,900	16,752
Dec	117.25	+0.75	118.25	116.75	2,687	39,985
Jan	120.25	+0.50	120.75	120.25	141	14,223
Feb	123.00	+0.50	123.75	123.25	2,300	10,506
Total					18,080	173,988

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	11.860	+0.010	11.970	11.840	190	3,150
Oct	12.190	+0.090	12.300	12.100	465	3,775
Total					1,730	25,645

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	1.850	-0.026	1.938	1.830	25,154	36,369
Oct	1.865	-0.085	1.959	1.845	9,338	46,247
Nov	2.105	-0.050	2.165	2.085	3,067	25,304
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	70.25	-1.00	70.50	70.25	17	195
Nov	71.50	-1.00	71.75	71.50	263	3,235
Jan	73.25	-1.15	73.50	73.25	149	2,154
Mar	75.00	-1.30	75.25	75.00	125	1,286
May	77.00	-1.30	77.50	76.75	120	1,011
Total					674	7,945

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	247.50	-5.50	253.00	246.00	7,532	24,170
Dec	264.50	-5.00	269.50	263.00	14,707	68,690
Mar	280.00	-5.25	284.50	279.00	2,311	21,460
May	289.50	-4.00	293.50	289.75	202	3,763
Jul	300.25	-4.75	304.50	299.50	536	7,466
Sep	308.50	-4.50	308.00	308.00	31	344
Total					25,319	128,906

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	203.50	-2.25	205.75	203.00	18,177	48,100
Dec	213.50	-2.00	215.50	213.00	27,795	166,851
Mar	225.25	-2.00	227.25	225.00	5,194	47,437
May	232.50	-2.00	234.75	232.25	1,463	16,456
Jul	238.25	-2.00	240.00	238.00	1,075	21,841
Sep	243.00	-1.25	244.25	243.00	308	3,449
Total					54,898	313,864

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	67.00	-1.00	68.00	68.00	10	49
Nov	70.15	-1.10	70.50	70.15	25	882
Jan	72.15	-1.10	72.30	72.25	20	398
Mar	74.05	-1.20	74.15	74.15	10	65
May	75.15	-1.10	-	-	-	23
Total					55	1,417

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	537.00	+5.25	537.50	530.00	3,281	11,187
Nov	531.25	+2.50	532.00	526.75	22,977	87,206
Jan	540.50	+2.50	541.00	536.00	1,437	16,744
Mar	550.25	+2.25	550.50	546.00	1,951	12,800
May	558.75	+2.25	559.50	555.00	268	4,092
Jul	568.00	+1.50	568.00	565.00	695	7,551
Total					30,773	142,894

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	24.09	+0.19	24.16	23.62	4,004	21,571
Oct	24.22	+0.19	24.25	23.97	2,860	19,568
Dec	24.37	+0.24	24.39	24.13	5,618	46,699
Jan	24.45	+0.25	24.47	24.23	464	6,656
Mar	24.48	+0.22	24.47	24.23	606	10,496
May	24.46	+0.21	24.45	24.25	391	3,413
Total					14,164	114,293

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	135.3	+0.4	135.6	133.1	7,254	17,153
Oct	133.9	-0.4	135.3	132.5	2,687	22,510
Dec	136.6	-0.5	138.0	135.3	7,453	63,059
Jan	138.7	-0.6	140.0	137.5	1,364	11,861
Mar	142.5	-0.7	143.8	141.7	1,456	10,222
May	145.6	-0.4	147.5	145.3	336	4,330
Total					21,373	138,985

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	-	-	-	-	3
Mar	115.0	-	-	-	-	-
Apr	173.0	+2.5	174.5	172.0	106	2,242
May	183.0	+2.5	-	-	-	29
Jun	193.0	+2.5	-	-	-	-
Total					106	2,342

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	817	+2	815	815	6	190
Oct	905	-15	905	905	17	457
Jan	960	-15	970	960	52	382
Apr	985	-10	995	995	-	201
Jul	880	-10	-	-	-	200
Total					17	1,700

	Close	Prev
BFI	815	810

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	433.00	+4.50	433.00	431.00	20	312
Dec	463.50	+3.50	464.00	460.75	40	244
Total					60	652

FUTURES DATA
All futures data supplied by CMS.

TEA from the Tea Brokers' Association Mombasa: Brighter BP1's were 3-15 cents dearer with mediums firm to 5 cents dearer. Lower mediums rose 5-15 cents. Neater plainer sorts were about 15 cents dearer but poorly made types were easier. Brighter liquoring PF1's were easier 5-20 cents and sometimes more, with mediums falling 5-15 cents. Lower mediums tended [illegible] to [illegible] overall [illegible] Dust [illegible] where [illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1020	-5	1028	1019	4,928	19,982
Dec	1058	-4	1064	1056	8,110	54,090
Mar	1085	-3	1092	1084	1,159	41,603
May	1102	-2	1108	1102	310	14,455
Jul	1119	-1	1125	1119	367	8,452
Sep	1135	-1	1141	1134	536	28,394
Total					15,713	174,215

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1512	+2	1520	1503	139	1,737
Dec	1547	+2	1556	1538	3,892	39,293
Mar	1589	+1	1595	1579	788	16,026
May	1617	+1	1620	1616	123	8,034
Jul	1647	+1	1651	1646	30	1,758
Sep	1676	+1	1677	1677	400	1,658
Total					5,445	73,518

■ COCOA (ICCO) (SDR's/tonne)

Aug 24	Price	Prev. day
Daily	1264.03	1279.41

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1679	+46	1680	1635	3,847	11,030
Nov	1619	+47	1620	1572	3,258	15,519
Jan	1573	+36	1573	1535	1,032	3,405
Mar	1540	+28	1540	1515	175	1,889
May	1530	+25	1530	1510	76	298
Jul	1530	+25	1509	1509	4	92
Total					8,402	32,243

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	123.80	+6.30	125.00	118.50	248	1,725
Dec	118.10	+5.65	119.00	113.00	3,294	14,166
Mar	114.65	+4.15	115.10	111.00	354	5,568
May	114.40	+3.88	115.25	111.25	111	2,560
Jul	114.40	+3.05	115.25	112.00	31	1,201
Sep	115.15	+3.15	116.25	116.25	-	1,433
Total					4,065	26,844

■ COFFEE (ICO) (US cents/pound)

Aug 24		Prev. day
Comp. daily	97.60	96.68
15 day average	100.99	101.62

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	233.9	-0.6	236.8	233.7	2,363	20,984
Dec	234.4	-0.3	236.8	234.5	702	8,196
Mar	238.2	-	240.4	238.3	267	13,205
May	243.1	+0.1	244.5	243.0	127	1,787
Aug	246.4	-1.2	248.5	246.0	174	1,275
Oct	246.2	-1.2	249.0	247.1	43	726
Total					3,446	46,187

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	7.93	-	8.05	7.82	20,530	78,442
Mar	8.29	+0.05	8.39	8.22	3,982	49,157
May	8.42	+0.06	8.53	8.37	803	7,597
Jul	8.41	+0.08	8.53	8.36	385	6,649
Oct	8.61	+0.04	8.74	8.58	857	8,229
Total					33,085	155,885

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	75.03	-0.64	75.75	74.95	671	4,694
Dec	75.45	-0.48	76.20	75.20	9,778	36,440
Mar	74.65	-0.55	75.35	74.60	2,233	17,782
May	74.16	-0.64	74.90	74.10	553	8,820
Jul	74.30	-0.65	74.90	74.15	209	5,077
Total					13,549	79,784

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	110.80	-0.70	111.80	110.00	1,313	10,348
Nov	114.70	-0.60	115.80	113.90	1,639	9,961
Jan	117.80	-0.45	118.50	117.25	480	4,785
Mar	121.10	-0.40	121.10	121.10	141	2,139
May	123.60	-0.85	125.70	125.70	21	731
Jul	126.60	-0.85	127.00	126.25	-	278
Total					3,674	28,273

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Aug 25	Aug 24	month ago	year ago
1513.5	1511.0	1541.8	1897.6

■ CRB Futures (Base: 1967 = 100)

Aug 24	Aug 21	month ago	year ago
200.68	200.54	-	-

■ GSCI Spot (Base: 1970 = 100)

Aug 24	Aug 21	month ago	year ago
141.44	140.62	145.72	192.99

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-1,675	to	466,325
Aluminium alloy	+440	to	71,820
Copper	+3,350	to	293,650
Lead	-75	to	117,575
Nickel	-125	to	60,006
Zinc	-1,600	to	370,925
Tin	+350	to	7,245

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	57.825	-0.125	58.400	57.750	523	1,181
Oct	58.850	-0.225	59.400	58.575	7,767	43,830
Dec	60.775	-0.150	61.425	60.650	2,874	21,254
Feb	62.075	-0.400	62.800	62.025	1,198	12,392
Apr	63.625	-0.300	64.200	63.575	1,045	5,089
Jun	62.125	-0.225	62.600	62.100	221	2,828
Total					13,660	86,801

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	40.750	-0.850	41.150	40.650	2,121	14,718
Dec	41.225	-0.675	41.750	40.800	943	9,381
Feb	44.575	-0.675	45.100	44.100	329	4,127
Apr	45.180	-0.075	45.200	44.500	48	818
Jun	53.450	-	53.375	52.850	25	411
Jul	54.325	+0.050	54.325	54.000	13	194
Total					3,486	29,798

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	69.475	-1.275	69.900	67.800	159	229
Feb	52.300	-3.000	54.700	52.300	1,140	3,107
Mar	52.450	-2.850	53.580	52.100	10	35
Total					1,310	3,373

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Oct	Jan	Oct	Jan
1350	26	57	38	44
1400	11	35	72	72
1450	3	20	114	106
■ COPPER (Grade A) LME	Oct	Jan	Oct	Jan
1500	135	168	59	29
1600	64	97	37	65
1700	22	54	94	118
■ COFFEE LIFFE	Sep	Nov	Sep	Nov
1550	80	96	1	27
1600	31	68	1	49
1650	1	47	21	78
■ COCOA LIFFE	Sep	Dec	Sep	Dec
1050	4	44	4	38
1075	1	33	25	50
1100	1	24	50	66
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1200	-	-	19	39
1250	48	-	-	52
1300	28	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.88-2.77	+0.430
Brent Blend (dated)	$12.38-2.42	+0.295
Brent Blend (Oct)	$12.58-2.62	+0.240
W.T.I.	$13.83-3.85x	+0.200

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$157-160	-
Gas Oil	$101-102	+1
Heavy Fuel Oil	$58-60	-1
Naphtha	$118-120	-1
Jet fuel	$120-125	+1
Diesel	$112-113	+0.5

■ NATURAL GAS (Pence/therm)

Bacton (Sep)	11.95-12.00	+0.1

Petroleum Argus. Tel: London (0171) 359 8792

■ OTHER

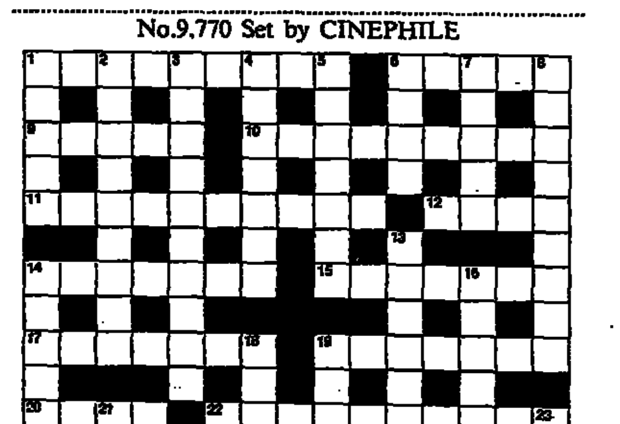
Gold (per troy oz)♣	$283.15	-2.10
Silver (per troy oz)♣	503.50c	-14.00
Platinum (per troy oz.)	$366.00	-1.50
Palladium (per troy oz.)	290.00	
Copper	80.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	23.15r	
Tin (New York)	289.5	
Cattle (live weight)	87.55p	-1.34*
Sheep (live weight)	93.47p	+0.85*
Pigs (live weight)†	42.42p	-0.34*
Lon. day sugar (raw)	$190.40	-1.10
Lon. day sugar (wte)	$245.20	-1.60
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Sep)♥	45.50p	
Rubber (Oct)♥	48.00p	
Rubber (KL RSS No1)	284.50m	+0.50
Coconut Oil (Phil)§	662.5y	+2.5
Palm Oil (Malay.)§	635.0	+7.5
Copra (Phil)§	$410.0y	
Soyabeans (US)	162.0y	
Cotton Outlook 'A' index	68.45	
Wooltops (64s Super)	309p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Aug/Sep. z Sep. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,221 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,770 Set by CINEPHILE



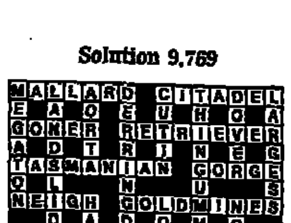
ACROSS

1 As quiet as this? Listen to the game (4,5)
6 Old forest for the outlawed? (5)
9 Its berries are red or turn pale (5)
10 No use being all round? (9)
11 Full of insight as ever with peptic trouble (10)
12 See 22
14, 15 Author Sadler's not well among the birds (7,7)
17 Eco-friendly monarch like another's grass? (7)
19 Nearly spoil everything to do with the union? (7)
20, 12 Midland beauty spot brings benefit including scripture (8)
22 What Alice had opposed in a set of false teeth (10)
25 With fashionable teetotaller about, cried out for prohibition (9)
26 There's nothing to change in the reproductive process (5)
27 Aptitude is said to be what Tweedledum said (5)
28 Judiciousness in its complimentary meaning (4,5)

DOWN

1 Take off all one's football kit (5)
2 Mislay a company coming up on the inside for small letters (5,4)
3 Where Alice went now, back to the German country (10)
4 Setter's favourite American force (7)
5 Stole used by model concealed the woman inside (7)
6, 24 Go back having a tie? (8)
7 Scene of warfare (naval) (5)
8 Broadcasting struck the press in the face (9)
13 Extras added to performances without some credit (10)
14 King in prison leading company astray (5,4)
16 Divert to consider? (9)
18 Thrush on the left side (7)
19 Skilled exponent of some art (7)
21 Check church plant (5)
23 Report of steps on the way (5)
24 See 6

Solution 9,769



ight rates
by tanker
-supply

FT MANAGED FUNDS SERVICE

Offshore Funds

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

SSWORD

FT MANAGED FUNDS SERVICE

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

American Phoenix Investment Portfolios (u)

Bank Von Ernst & Cie AG

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

47 Boulevard Royal, L-2449 Lux 00 352 4640101

Mercury Asset Management - Contd.

Morgan Stanley Sicav

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Friends Provident International

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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	Selling Price	Buying Price	+ or -	Yield Gross
Royal & Sun Alliance Intl Financial Srvs	[illegible]	[illegible]	[illegible]	[illegible]
Asian Convertibles & Income Fd (Cayman)	[illegible]	[illegible]	[illegible]	[illegible]
Atlantic Investment Management, Inc	[illegible]	[illegible]	[illegible]	[illegible]
Atlantic Fund Management (Guernsey) Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Atlas Real Estate Hedge Fund Limited	[illegible]	[illegible]	[illegible]	[illegible]
Aurora Funds	[illegible]	[illegible]	[illegible]	[illegible]
Darier Hentsch Fund Management SA	[illegible]	[illegible]	[illegible]	[illegible]
Delta Fund	[illegible]	[illegible]	[illegible]	[illegible]
Delta Managed Funds Limited	[illegible]	[illegible]	[illegible]	[illegible]
Deltec Panamerica Trust Company Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Glano Capital Limited	[illegible]	[illegible]	[illegible]	[illegible]
The Glenmore Property Fund Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Global Asset Management	[illegible]	[illegible]	[illegible]	[illegible]
Indocam Asia	[illegible]	[illegible]	[illegible]	[illegible]
Magnum Funds - Contd.	[illegible]	[illegible]	[illegible]	[illegible]
PRS International	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Chartered Capital Mgmt Limited	[illegible]	[illegible]	[illegible]	[illegible]
Societe Generale Group	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

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LONDON STOCK EXCHANGE

Bid news and strong global gains boost equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Another session of fast and furious moves in stock prices saw London's equity market build confidently on Monday's good closing performance, helped along by more takeover action and impressive showings by international markets.

The FTSE 100 index finished the session in good heart, up 100.7 at 5,654.4. Over the last two sessions, it has risen 177.4 points, recouping much of last Friday's 190.4 decline. Although never looking like matching the performance of the senior index, the FTSE 250 also made progress, notching up a 44.3 gain at 5,100.3, largely on the back of the £1.25bn cash bid for insurance broker Sedgwick, from Marsh & McLennan of the US.

But the smaller stocks were left behind by the top 350. The FTSE SmallCap index struggled all day and eventually closed 3.5 down at 2,285.0.

Impressive performances from Wall Street on Monday and again at the outset of trading yesterday, plus good showings from most Asian markets, provided a powerful kick-start for London.

The Dow Jones Industrial Average managed to end a see-saw Monday session 32 points ahead and both Hong Kong and Tokyo delivered positive responses, helping to calm some still-ragged nerves in London.

Big gains across most of the continental bourses, especially Frankfurt and Paris, added to the gradually improving general outlook in London, as did the firmer trend in the gilts market.

There was genuine cause for celebration at news of the latest takeover in the insurance arena, the third in the past couple of months.

The bid for Sedgwick comes hard on the heels of Friends Provident's agreed £744m bid for London & Manchester, the life assurer, launched only last week, and Kohlberg Kravis Roberts' bid for Willis Corroon last month. Dealers insisted there is more restructuring to come in the general insurance stocks.

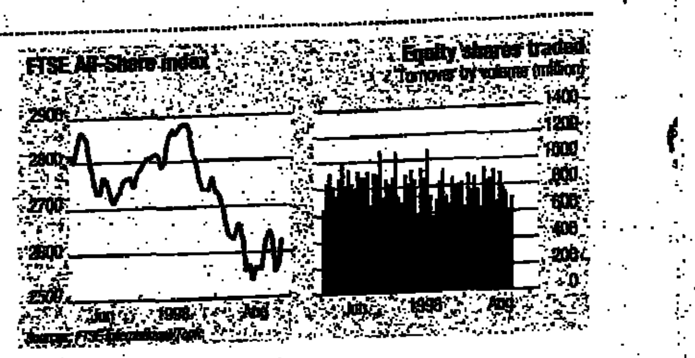
Footsie hit its session high, 5,655.6 in mid-morning, as the build-up of takeover speculation was at its height. Although some observers remain wary of the extreme volatility in the UK market, there are still plenty of market strategists who see good value in stocks.

Scottish Equitable Asset Management said yesterday that it had restructured its portfolios to "reflect a positive position on bonds in the UK and US markets" – funded from lower cash weightings – and said it expects both UK and US equities to outperform cash, rebalancing its equity portfolios from a neutral to a positive position.

SEAM remains positive on the prospects for European equities but is underweight in Japan, the Far East and Latin America.

SEAM said it expects the UK economy to grow by a little below 2 per cent this year and forecasts a "soft landing", with inflation at 2.8 per cent by the end of this year. It does not see a need for interest rates to rise from the current 7.5 per cent and said rates could begin to decline in the new year.

Just about the only disappointment was the low level of turnover, which at 6pm reached only 725m shares.



Indices and ratios

FTSE 100	5654.4	+100.7	FT 30	3607.3	+60.6
FTSE 250	5100.3	+44.3	FTSE Non-Fins p/e	22.09	21.79
FTSE 350	2704.0	+43.8	FTSE 100 Fut Sep	5678.0	+88.0
FTSE All-Share	2624.13	+39.95	10 yr Gilt yield	5.55	5.58
FTSE All-Share yield	3.03	3.08	Long gilt/equity yld ratio	1.82	1.79

Best performing sectors

1. Insurance +4.6
2. Electronic & Elect Equip +3
3. Food Producers +2.8
4. Pharmaceuticals +2.5
5. Tobacco +2.5

Worst performing sectors

1. Alcoholic Beverages −1.6
2. Engineering: Vehicles −0.2
3. Leisure & Hotels −0.1
4. Construction −0.1
5. Health Care −0

Sedgwick bid raises stakes

COMPANIES REPORT

By Peter John and Joel Kibazo

The latest bid among insurance brokers marked the second stage in the globalisation of the UK sector.

And at 225p a share, the offer by Marsh & McLennan of the US for Sedgwick represented a 57.9 per cent premium over the insurance group's closing price on Monday.

The offer values Sedgwick at £1.25bn and comes a month after rival Willis Corroon agreed to a £950m takeover by KKR, the US buyout specialist.

It also raised the stakes in the game not just for the leaders but also for smaller companies in the sector.

Dealers were reviving stories in a Sunday newspaper earlier this month that Morgan Stanley Dean Witter was advising Aon of the US on a possible counter bid for Willis.

One broker said the aggressive Marsh offer would translate to about 230p a share for Willis, which was marked up 2¼ to 199p. Sedgwick jumped 70½ to 213p.

SG Securities recommended Jardine Lloyd Thompson. Analyst Tim Young said a relative yield valuation put a take-out price of 350p a share on JLT while a price/earnings comparison put it at 320p.

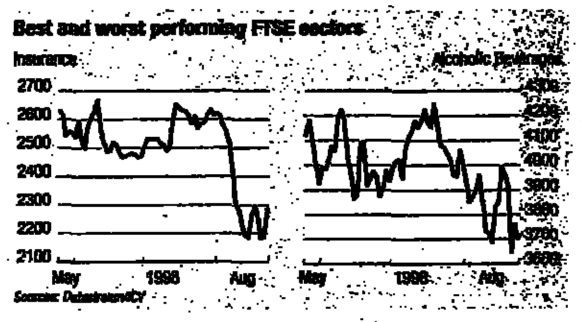
Allowing for the smaller size and different nature of the group, Mr Young targeted 250p a share. The shares rose 19½ to 194½p.

BAT Industries held early gains amid positive comment after the company set a date for its tobacco and insurance demerger.

Dresdner Kleinwort Benson repeated an "add" recommendation on BAT and other brokers were positive on the stock. Morgan Stanley Dean Witter said the British American Tobacco arm should be worth 500p a share after the demerger, compared with an implied 310p now.

The date of September 8 for the new shares to start trading was earlier than expected. And BAT's dismissal of the threat of legal action against the demerger had calmed concerns. The shares rose 20½ to 647½p.

Guardian Royal Exchange lifted 12 to 290p with Merrill Lynch raising its recommendation to "accumulate" from "neutral". The broker gave a price target of 310p-340p for the shares and increased its medium-term recommendation on valuation grounds.



Merrill said the group was trading at a four-year relative low.

Aero-engine group Rolls-Royce shrugged off recent weakness as the market celebrated the announcement of new orders to power the British Airways fleet.

A statement from BA said the International Aero Engines consortium, in which Rolls is involved with Pratt & Whitney, was to supply the engines to the 20 Airbus A320s it ordered. BA also took options on a further 129 A320s.

In addition, the UK carrier said Rolls was among three aero-engine makers tendering to supply engines for Boeing aircraft it is also buying. The shares jumped 20¾ or 9.6 per cent to 236p, the best performer in the FTSE 100. Volume was 6.7m by the close.

Morgan Stanley Dean Witter and HSBC were said to have reiterated their positive stance on the stock while several specialists on the sector suggested the stock had been oversold.

However, not everyone is a fan and one analyst said: "Rolls may have a healthy order book but margins remain a problem."

The company reports its figures tomorrow and the market is expecting to see first-half profits of around £130m, up from £116m a year ago.

British Airways, which yesterday confirmed it is to acquire up to 220 new aircraft, including up to 188 Airbus Industrie regional jets, was also in demand. The shares rose 6¼ to 503p.

It was reported after the market close that BA chairman Lord Marshall had acquired 10,000 ordinary shares in the company at 502p each. Following the transaction, he holds 63,875 BA shares.

BA also said that director Derek Maurice Stevens had bought 20,000 shares, also paying 502p and raising his holding to 167,719 shares.

BAe in demand

British Aerospace was also in demand following the new orders from BA for the Airbus Industrie consortium. The shares hardened 10 to 430p. BAe holds a 20 per cent stake in Airbus and builds the wings for Airbus aircraft.

In the rest of the engineers, Siebe bounced 12 to 230p while GEC was also wanted, the shares appreciating 20½ to 446p. Profit-taking in GKN saw the shares lose 9 to 724p.

HSBC lost ground with the firm showing in the Hong Kong markets overnight doing little to boost sentiment

Trading in the stock has been impacted by reports of a £100m bought deal – equivalent to 8.5m HSBC shares – on Monday by Dresdner Kleinwort Benson.

The broker is understood to have placed some of the stock in the Hong Kong market, which has been supported in recent days by talk of hefty government intervention. The shares ended 7 lower at £13.67.

Abbey National put on 19 at £11.17 after Schroders reiterated its positive "outperform" recommendation.

ICI gained 18 to 686p as the battered stock recovered from five-year lows. On Monday, the stock fell to 656p, its lowest level since July 1993. Since a mid-May peak of £12.44, the shares have lost 45 per cent of their value.

One dealer said the stock had been "incredibly oversold", adding that ICI had managed to shrug off any impact of a profit warning from Kalon. ICI's profit warning in July provoked a 22 per cent slump in the share price in three days.

US product approval boosted Celltech by 12½ to 237½p. The company is to receive royalties on an inflammatory bowel disorder treatment marketed by Centocor of the US.

Cairn Energy fell 31 to 130½p after a results statement that included news that testing of the Halda-1 well in Bangladesh had proved fruitless.

Shares in Selfridges hardened 3½ to 248½p following confirmation that British Land subsidiary Boldswitch had acquired a further 3.6m ordinary shares in the company, representing 2.38 per cent and taking its holding in the retailer to 8,775,855 shares, or 5.75 per cent.

British Land shares ended the day a penny firmer at 534p.

FT 30 INDEX

	Aug 25	Aug 24	Aug 21	Aug 20	Aug 19	Yr ago	*High	*Low
FT 30	3607.3	3546.7	3513.1	3628.7	3636.2	3129.0	3984.8	3546.5
Ord. div. yield	2.97	3.02	3.06	2.96	2.95	3.64	4.22	2.72
P/E ratio net	22.54	22.21	21.94	22.67	22.69	17.91	25.41	15.80
P/E ratio nil	22.45	22.12	21.85	22.57	22.60	17.73	25.19	15.71

FT 30 since compilation: high 3920.3 11/05/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3546.7	3592.0	3592.3	3590.6	3595.9	3590.9	3595.8	3590.8	3607.3	3546.6

STOCK MARKET TRADING DATA

	Aug 25	Aug 24	Aug 21	Aug 20	Aug 19	Yr ago
SEAQ bargains	58,451	61,089	68,325	47,035	57,015	40,113
Equity turnover (£m)†	-	2582.7	2373.1	2473.0	3197.7	2307.8
Equity bargains†	-	38,783	43,794	35,690	44,808	41,357
Shares traded (m)†	-	620.9	746.0	599.4	829.2	672.0
Total market bargains‡	-	48,612	69,129	44,051	56,410	-
Total turnover (£m)‡	-	3442.9	4276.8	3357.3	4259.3	-
Total shrs traded (m)‡	*703.7	813.1	1038.7	795.6	1042.6	-
Tradepoint turnover (£m)	30.2	61.4	17.3	33.4	39.7	1.4
Tradepoint shrs traded(m)	9.2	8.8	5.4	10.0	9.4	0.5

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	731	Total Highs	63	Total contracts	30,188
Total Falls	692	Total Lows	194	Calls	14,206
Same	1,551			Puts	15,982

Aug 25 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Sep	5610.0	5678.0	+88.0	5684.0	5606.0	24748	184019
Dec	5725.0	5761.5	+91.5	5757.0	5725.0	1753	18502
Mar	5811.0	5824.0	+94.0	5811.0	5811.0	100	1145

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Sep	5102.0	5133.0	+44.0	5113.0	5102.0	4	6641
Dec	5161.0	5200.0	+44.0	5161.0	5161.0	6	21

■ FTSE 100 INDEX OPTION (LIFFE) (*5646) £10 per full index point

	5450 C	5450 P	5500 C	5500 P	5550 C	5550 P	5600 C	5600 P	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P
Sep	336	95½	288½	112½	261½	127	232	148	202½	170	173	192	145	217	123½	247½
Oct	415	167	379	184	360	204½	321	224½	292½	245	263½	267½	235	289	211	317½
Nov	492	216½	462½	238	433½	258½	404	279	375	299½	345	320½	317	342	289	366½
Dec	572	242	542½	262	512½	280	482½	300	455	320	427½	340½	397½	361½	367½	383
Jun†			794½	454½			738½	494½			682½	536			626½	579½

Calls 940 Puts 782

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5525		5575		5625		5675		5725		5775		5825		5875	
Sep	274	121½	237½	135	206	153	178½	175½	149½	198½	130½	227	116½	258½	94½	80½
Oct	304	180	332	207½	301½	226½	272½	247	247½	271½	218½	292½	195	317½	172½	344½
Nov	461½	251	416½	268½	389	287	359½	306½	331	327	304	349	278	372	253	396½
Dec	506	274½	-		462½	319			384	358½			340	402		
Mar†	602	375			580½	405½			542	447			497	498		

Calls 7,757 Puts 9,570 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	0.36	12½	8	Chaucer A Wts	12½		-	-	-	-
160	F.P.	1,723	192½	161	Coca-Cola Bev	161½		-	-	-	-
–	F.P.	–	58	56	Enterprise Cap B Pf	57½		-	-	-	-
§114	F.P.	24.0	117½	105½	†Freedom D'mond	109½		-	-	-	-
§–	F.P.	–	168¼	167¾	EBIGT Secs Zero	167¾		-	-	-	-
–	F.P.	–	60	59	Gartmore Br Inc	59½		-	-	-	-
–	F.P.	–	87½	85½	Gartmore Br Inc	87		-	-	-	-
–	F.P.	–	86½	85	Gartmore New Inc	86		-	-	-	-
§	F.P.	82.3	152½	144½	Hidden Hearing	145		3.33	3.1	2.9	14.1
–	F.P.	5.27	119½	110½	†Inter Link Foods	113½		2.0	3.5	2.2	16.2
§130	F.P.	124.7	129½	127½	Kiln	127½	−1	W–	–	–	15.1
–	F.P.	405.1	98	94	MEPC Non Cum Pf B	95½		-	-	-	-
–	F.P.	14.3	112½	100½	†Melior Grp	112½		b0.6	–	4.0	–
*	F.P.	17.2	65¼	42½	†Soco Petroleum	42½		-	-	-	-
*	F.P.	5.35	103½	97½	†SuperRule	97½		-	-	-	-
–	F.P.	–	34	21½	Syndicate Cap Wts 98/02	23½		-	-	-	-
§	F.P.	1.06	5¼	5½	†Talisman Hous	5¼		-	-	-	-
§	F.P.	0.08	2	2	†Talisman Hse Wt	2		-	-	-	-
–	F.P.	208.8	304	167½	Torotrak	177½	−7½	-	-	-	-
–	F.P.	–	33½	32½	Walker Greenbank B	33		-	-	-	-
§2	F.P.	2.46	2½	2½	†Winslow Grp	2½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Aug 24	% chg on day	Aug 21	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (28)	852.64	−1.8	868.40	1461.28	2.27	–	1535.45	849.02
■ Regional Indices								
Africa (10)	909.73	−0.8	917.12	1438.49	5.18	34.91	1525.29	909.73
Australasia (7)	941.61	−2.8	968.61	1599.56	3.31	6.65	1609.85	933.63
Americas (11)	824.22	−2.1	842.03	1450.57	0.82	48.84	1574.16	809.90

Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Aug 25	Day's chge%	Aug 24	Aug 21	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5654.4	+1.8	5553.7	5477.0	4906.9	2.95	2.50	1.96	21.57	111.32	2498.69
FTSE 250	5100.3	+0.9	5056.0	5074.5	4849.6	3.24	2.74	1.99	19.35	95.00	2197.34
FTSE 250 ex Inv Tr	5141.5	+0.9	5097.9	5120.6	4880.7	3.34	2.83	2.06	18.20	98.33	2223.84
FTSE 350	2704.0	+1.6	2660.2	2631.8	2367.2	3.00	2.54	1.97	21.14	52.89	2431.09
FTSE 350 ex Inv Tr	2709.9	+1.6	2666.0	2637.1	2368.2	3.02	2.56	1.98	20.93	53.13	1249.73
FTSE 350 Higher Yield	2593.9	+1.4	2557.3	2531.4	2274.4	4.10	3.48	1.90	16.04	86.38	1996.54
FTSE 350 Lower Yield	2813.1	+1.8	2763.0	2732.2	2462.2	2.14	1.81	2.07	28.19	41.65	2052.88
FTSE SmallCap	2285.84	−0.2	2289.31	2298.59	2252.75	3.52	2.86	1.92	18.45	39.44	1996.23
FTSE SmallCap ex Inv Tr	2267.09	−0.2	2272.58	2283.01	2224.94	3.77	3.08	2.02	16.41	41.19	2000.40
FTSE All-Share	2624.13	+1.5	2584.18	2558.67	2313.32	3.03	2.56	1.97	20.96	50.79	2394.03
FTSE All-Share ex Inv Tr	2633.02	+1.6	2592.67	2566.49	2314.39	3.05	2.58	1.98	20.66	51.42	1235.96

■ *FTSE* Actuaries Industry Sectors

	Aug 25	Day's chge%	Aug 24	Aug 21	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	3973.70	+0.8	3941.92	3943.71	4821.97	3.86	3.34	1.66	19.57	88.48	1834.43
12 Extractive Industries(6)	2457.79	+0.9	2435.83	2446.06	4229.94	5.68	5.21	2.06	10.71	79.47	776.57
15 Oil, Integrated(4)	4541.52	+0.9	4503.04	4502.81	5101.72	3.75	3.21	1.58	21.05	98.56	2157.73
16 Oil Exploration & Prod(12)	2359.46	—	2358.39	2355.29	3889.52	2.41	2.00	1.89	30.67	33.41	1466.55
20 GEN INDUSTRIALS(216)	1818.83	+1.5	1792.70	1793.61	2029.36	3.99	3.51	2.27	13.82	44.69	1077.04
21 Construction(38)	1263.22	−0.1	1264.43	1285.14	1378.89	3.90	3.17	2.73	11.76	22.87	1129.28
22 Building Matls & Merchs(26)	1486.30	+1.1	1469.93	1476.17	1847.33	4.95	4.31	2.00	12.64	39.74	813.79
23 Chemicals(23)	2216.95	+0.8	2199.57	2186.32	2666.12	4.29	3.97	1.78	17.11	61.84	1144.70
24 Diversified Industrials(7)	1134.35	+1.1	1122.19	1150.21	1402.66	5.10	4.74	2.10	11.71	58.21	717.92
25 Electronic & Elect Equip(26)	2419.79	+3.0	2348.62	2366.38	2160.28	3.13	2.54	1.85	21.59	33.16	1367.04
26 Engineering(53)	2400.11	+2.1	2351.47	2339.44	2732.09	3.97	3.58	2.49	12.67	58.18	1598.14
27 Engineering, Vehicles(11)	3620.15	−0.2	3625.97	3613.26	3043.03	2.42	2.22	3.38	15.29	57.50	2003.46
28 Paper, Pckg & Printing(22)	1726.73	+1.8	1698.68	1687.31	2168.73	5.19	4.65	2.41	9.99	54.29	787.32
30 CONSUMER GOODS(96)	5738.51	+1.9	5632.60	5585.47	4504.96	2.65	2.28	1.73	28.26	95.33	2279.19
32 Alcoholic Beverages(6)	3699.99	−1.8	3758.37	3647.38	3249.47	3.66	3.10	1.60	21.37	69.61	1480.52
33 Food Producers(25)	3737.09	+2.8	3634.98	3611.12	3037.20	2.80	2.36	2.10	21.30	64.54	1818.67
34 Household Goods & Texts(24)	2895.31	+0.2	2888.73	2863.65	3182.24	3.76	3.36	2.85	16.19	54.01	1222.97
36 Health Care(13)	2314.11	—	2314.73	2299.25	2285.17	2.21	2.05	2.21	25.49	31.78	1484.13
37 Pharmaceuticals(19)	9952.60	+2.5	9718.97	9589.99	7178.82	1.77	1.65	1.59	44.39	145.50	3578.95
38 Tobacco(3)	5462.22	+2.5	5321.83	5364.11	4393.41	4.72	4.17	1.61	16.43	130.10	1526.02
40 SERVICES(260)	3509.39	+1.2	3466.91	3437.03	2733.38	2.44	2.00	2.02	25.37	50.92	1940.32
41 Distributors(28)	2156.93	+0.1	2155.56	2157.65	2812.39	4.58	3.79	1.97	13.86	57.51	854.54
42 Leisure & Hotels(27)	3150.08	−0.1	3153.72	3167.41	3283.56	3.01	2.49	2.58	16.08	69.58	1792.84
43 Media(41)	4341.17	+1.2	4288.86	4289.92	4078.25	2.41	2.02	2.14	24.28	76.39	1654.53
44 Retailers, Food(13)	2859.34	+1.2	2825.49	2812.36	2409.74	3.17	2.54	2.12	18.60	54.48	1959.50
45 Retailers, General(46)	2210.71	+1.9	2169.21	2140.94	2244.06	3.36	2.78	2.16	17.08	41.26	1354.12
46 Telecommunications(10)	5108.25	+1.4	5039.00	4925.82	2385.45	1.70	1.41	1.46	50.29	47.70	2505.54
47 Breweries, Pubs & Rest.(24)	3718.38	+0.7	3693.10	3629.43	3327.37	3.30	2.65	2.36	16.00	65.00	1989.59
48 Support Services(54)	4841.96	+1.1	4789.48	4806.27	3094.20	1.25	1.05	2.71	36.96	31.81	3193.58
49 Transport(24)	3576.33	+1.3	3529.96	3537.07	2900.37	2.97	2.43	1.80	26.34	60.17	1602.75
60 UTILITIES(22)	4037.69	+1.2	3991.72	3948.29	3091.20	3.99	3.27	1.74	18.04	89.38	1945.82
62 Electricity(8)	4455.90	+1.4	4392.44	4391.50	3470.98	4.52	3.61	1.90	14.58	107.21	2631.30
64 Gas Distribution(2)	3179.83	+0.8	3153.38	3050.58	2370.28	2.05	1.64	‡	‡	28.03	1637.85
68 Water(12)	3506.89	+0.9	3473.92	3443.48	2884.90	4.87	4.18	2.34	10.96	112.14	2194.80
69 NON-FINANCIALS(636)	2678.19	+1.4	2641.67	2621.91	2321.93	2.95	2.51	1.92	22.09	47.71	2192.70
70 FINANCIALS(106)	5016.50	+2.1	4913.35	4823.57	4597.58	3.37	2.78	2.16	17.18	124.79	2341.11
71 Banks, Retail(12)	7139.17	+2.1	6993.48	6932.63	7130.29	3.57	2.86	2.11	16.54	195.24	2527.21
73 Insurance(16)	2285.42	+4.6	2185.59	2182.81	1630.65	3.78	3.53	2.54	13.01	73.71	1312.48
74 Life Assurance(6)	7443.03	+1.4	7342.25	7200.80	4904.32	2.57	2.22	2.40	20.29	118.11	3329.98
77 Other Financial(25)	4417.78	+2.4	4312.90	4267.68	3368.77	2.53	2.08	2.16	22.89	77.22	2763.98
79 Property(45)	1891.75	+0.4	1883.68	1880.35	1995.48	3.48	2.92	1.61	22.34	35.14	1249.04
80 INVESTMENT TRUSTS(114)	3580.47	+1.2	3538.61	3532.07	3479.82	2.29	1.85	1.17	46.82	47.20	1309.32
89 FTSE All-Share(850)	2624.13	+1.5	2584.18	2558.67	2313.32	3.03	2.56	1.97	20.96	50.79	2394.03
105 FTSE All-Share ex Inv Tr(736)	2633.02	+1.6	2592.67	2566.49	2314.39	3.05	2.58	1.98	20.66	51.42	1235.96
Information Technology	1649.79	+0.2	1647.20	1663.80	–	0.55	0.44	4.03	56.34	4.95	1655.33
FTSE Fledgling	1270.04	−0.1	1271.21	1275.39	1253.83	3.42	2.77	1.42	25.78	22.94	1414.45
FTSE Fledgling ex Inv Tr	1291.18	−0.1	1293.02	1296.84	1254.34	3.75	3.04	1.48	22.48	25.66	1444.55
FTSE AIM	977.5	−0.1	978.1	990.6	1028.1	1.10	0.88	‡	‡	7.23	905.92

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5553.7	5635.3	5630.6	5631.6	5636.3	5631.4	5634.8	5628.8	5655.6	5559.5
FTSE 250	5066.0	5081.0	5093.2	5093.0	5094.2	5094.8	5095.4	5098.3	5100.4	5066.9
FTSE 350	2661.1	2694.7	2697.5	2694.3	2696.3	2694.4	2695.8	2693.7	2704.0	2663.7
FTSE SmallCap	2287.96	2288.31	2287.59	2287.85	2286.83	2286.17	2285.67	2285.95	2289.09	2285.30
FTSE All-Share	2584.96	2615.76	2618.29	2615.39	2617.15	2615.37	2616.84	2614.71	2624.13	2587.23

Time of FTSE 100 Day's high: 10:27:15 Day's low: 9:00:15. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 5088.8 (12/01/98)
Time of FTSE All-Share Day's high: 16:20:00 Day's low: 9:07:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2389.32 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Radius, Kiln Capital, China Inv. Tst. (all FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Aug 25 / Sch)

BELGIUM/LUXEMBOURG (Aug 25 / Frs.)

CZECH REP (Aug 25 / Koruna)

DENMARK (Aug 25 / Kr)

FINLAND (Aug 25 / Mka)

FRANCE (Aug 25 / Frs.)

GERMANY (Aug 25 / Dm.)

GREECE (Aug 25 / Drachma)

ITALY (Aug 25 / Lira)

NORWAY (Aug 25 / Kroner)

SWEDEN (Aug 25 / Kronor)

SWITZERLAND (Aug 25 / Frs.)

POLAND (Aug 25 / Zloty)

PORTUGAL (Aug 25 / Escudo)

SPAIN (Aug 25 / Pta.)

NETHERLANDS (Aug 25 / Fls.)

TURKEY (Aug 25 / Tk Lira)

PACIFIC

JAPAN (Aug 25 / Yen)

HONG KONG (Aug 25 / H.K.$)

INDONESIA (Aug 25 / Rupiah)

MALAYSIA (Aug 25 / MYR)

NEW ZEALAND (Aug 25 / NZ $)

SINGAPORE (Aug 25 / S$)

AUSTRALIA (Aug 25 / Aust$)

SOUTH KOREA (Aug 25 / Won)

TAIWAN (Aug 25 / TW $)

THAILAND (Aug 25 / Baht)

AMERICAS

CANADA

TORONTO (Aug 25 / Can $)
4 pm close

MONTREAL (Aug 25 / Can $)
4 pm close

MEXICO (Aug 25 / Peso)
12:30 pm

AFRICA

SOUTH AFRICA (Aug 25 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY AUGUST 24 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY AUGUST 21 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	173.81	−1.6	157.19	158.01	162.32	199.40	−1.3	3.74	176.63	160.50	162.16	165.50	202.11	238.24	172.68	230.51
Austria (22)	198.12	−1.2	179.18	180.11	185.03	184.92	−1.6	1.83	200.61	182.29	184.18	187.97	187.85	253.73	181.60	190.57
Belgium (22)	366.79	−0.5	331.71	333.45	342.55	334.90	−0.8	2.05	368.55	334.89	338.36	345.33	337.72	398.52	234.33	237.38
Brazil (26)	159.74	−2.7	144.46	145.22	149.18	345.34	−2.8	3.35	164.19	149.19	150.74	153.84	355.11	308.59	159.74	266.18
Canada (119)	189.65	−1.6	171.52	172.41	177.12	212.60	−0.9	1.92	192.70	175.10	176.92	180.56	214.46	248.78	189.65	214.66
Denmark (34)	468.65	1.3	423.83	426.05	437.68	436.11	0.9	1.48	462.71	420.45	424.81	433.56	432.18	537.39	375.32	389.90
Finland (28)	428.87	0.8	387.86	389.89	400.53	491.66	0.6	1.87	425.33	386.49	390.49	398.53	488.98	506.46	267.59	295.97
France (78)	301.90	−0.2	273.03	274.46	281.95	285.15	−0.5	2.21	302.48	274.85	277.70	283.42	286.64	345.18	217.48	224.89
Germany (58)	271.74	1.4	245.75	247.04	253.78	253.78	1.1	1.26	267.94	243.47	245.99	251.05	251.05	325.61	204.89	222.84
Greece (37)	295.72	−2.9	267.44	268.84	276.18	849.03	−2.5	1.46	304.40	276.60	279.47	285.22	882.88	339.20	260.24	–
Hong Kong, China (66)	224.79	2.1	203.29	204.36	209.94	223.60	2.1	6.95	220.14	200.04	202.11	206.27	219.04	543.07	196.64	537.16
Indonesia (27)	29.74	−4.7	26.89	27.03	27.77	210.71	−5.9	3.22	31.20	28.35	28.65	29.24	223.97	177.23	23.58	177.23
Ireland (16)	475.73	−0.2	430.24	432.49	444.30	480.16	−0.6	1.97	476.90	433.35	437.83	446.85	483.15	560.44	359.60	365.59
Italy (54)	161.49	0.8	146.05	146.81	150.82	213.69	0.4	1.37	160.22	145.59	147.10	150.13	212.77	184.49	97.93	97.93
Japan (480)	83.45	−0.7	75.47	75.86	77.93	75.86	−1.7	1.04	84.02	76.35	77.14	78.73	77.14	128.35	81.87	128.35
Malaysia (106)	81.83	−1.2	74.00	74.39	76.42	132.38	−1.8	4.76	82.79	75.23	76.01	77.58	134.73	394.59	79.14	394.59
Mexico (28)	995.24	−2.1	900.07	904.77	929.48	10514.17	−2.5	2.59	1016.24	923.43	932.99	952.20	10783.24	1901.98	995.24	1794.09
Netherlands (27)	474.91	−1.1	429.49	431.74	443.53	439.03	−1.4	2.04	479.95	436.12	440.64	449.71	445.19	562.38	385.56	402.57
New Zealand (14)	54.58	−2.7	49.35	49.60	50.96	58.87	−2.7	5.15	56.06	50.94	51.46	52.52	60.53	95.87	54.56	89.47
Norway (38)	242.80	2.0	219.58	220.73	226.75	257.84	3.1	2.43	238.02	216.29	218.52	223.03	250.04	374.64	238.02	316.85
Philippines (22)	52.54	−4.9	47.52	47.76	49.07	113.24	−4.0	1.49	55.24	50.19	50.71	51.76	117.96	130.19	52.46	130.19
Portugal (18)	256.22	−0.1	231.72	232.93	239.29	322.51	−0.5	1.01	256.53	233.10	235.51	240.36	324.21	299.39	256.22	–
Singapore (41)	117.43	−3.0	106.20	106.76	109.67	95.65	−2.9	3.16	121.00	109.95	111.09	113.38	98.53	342.21	117.43	341.44
South Africa (40)	172.59	−0.9	156.09	156.91	161.19	238.23	−1.6	3.75	174.08	158.19	159.82	163.12	242.00	346.20	172.59	338.16
Spain (31)	349.10	−1.4	315.72	317.37	326.04	403.18	−1.7	1.89	354.15	321.80	325.14	331.88	410.30	417.73	236.28	243.51
Sweden (49)	515.98	−0.1	466.64	469.08	481.88	629.28	0.5	1.86	516.35	469.20	474.05	483.82	626.30	628.19	439.98	498.66
Switzerland (28)	383.95	−1.3	347.24	349.05	358.58	357.25	−1.7	1.17	388.94	353.42	357.08	364.43	363.43	439.48	285.85	296.76
Thailand (37)	9.77	−3.3	8.83	8.88	9.12	15.79	−3.2	6.97	10.10	9.18	9.28	9.47	16.31	46.32	9.59	46.32
United Kingdom (210)	354.56	1.7	320.66	322.35	331.15	320.66	1.2	3.10	348.68	316.84	320.12	326.71	316.84	401.84	303.41	309.74
USA (825)	443.20	0.3	400.82	402.92	413.92	443.20	0.3	1.46	442.04	401.67	405.82	414.18	442.04	485.88	358.31	375.02
Americas (799)	395.27	0.2	357.47	359.34	369.15	335.26	0.2	1.50	394.62	358.58	362.29	369.76	334.63	437.03	326.79	342.56
Europe (748)	335.05	0.5	303.01	304.59	312.91	319.24	0.1	2.13	333.41	302.96	306.09	312.40	318.77	386.24	265.25	270.35
Eurobloc (352)	97.03	0.1	87.75	88.21	90.61	97.99	−0.2	1.74	96.90	88.05	88.96	90.79	98.19	113.28	86.90	–
Nordic (149)	461.74	0.5	417.58	419.77	431.23	484.81	0.7	1.84	459.59	417.62	421.94	430.63	481.27	555.87	388.51	415.32
Pacific Basin (865)	88.23	−0.8	79.79	80.21	82.40	80.60	−1.4	1.89	88.79	80.68	81.52	83.19	81.74	145.53	86.47	145.53
Euro–Pacific (1613)	191.10	0.2	172.83	173.73	178.47	170.63	−0.3	2.05	190.73	173.31	175.11	178.71	171.07	220.19	172.03	197.83
North America (744)	426.23	0.2	385.47	387.49	398.07	427.44	0.2	1.48	425.39	386.54	390.54	398.59	426.49	469.20	349.06	365.04
Europe Ex. UK (538)	313.84	−0.1	283.83	285.31	293.10	308.60	−0.4	1.66	314.09	285.41	288.36	294.30	309.71	388.32	236.79	243.06
Europe Ex. Eurobloc (396)	91.38	0.9	82.64	83.07	85.34	93.09	0.5	2.54	90.59	82.32	83.17	84.88	92.61	103.93	90.30	–
Europe Ex. UK Ex. Eurobloc (186)	93.59	−0.8	84.64	85.08	87.41	95.95	−0.9	1.41	94.30	85.69	86.58	88.35	96.68	109.21	93.59	–
Pacific Ex. Japan (385)	138.93	−0.4	125.64	126.30	129.75	149.88	−0.3	5.00	139.50	126.76	128.08	130.71	150.40	294.74	133.44	294.28
World Ex. Eurobloc (2100)	92.30	0.2	83.47	83.91	86.20	94.10	0.0	1.76	92.13	83.72	84.58	86.32	94.08	103.16	91.33	–
World Ex. US (1627)	191.04	0.1	172.78	173.68	178.42	175.09	−0.3	2.07	190.90	173.47	175.27	178.88	175.67	221.91	175.30	201.63
World Ex. UK (2242)	264.58	−0.0	239.28	240.53	247.09	245.88	−0.2	1.59	264.59	240.42	242.91	247.92	246.28	298.02	234.24	252.01
World Ex. Japan (1972)	365.89	0.3	330.90	332.63	341.71	362.64	0.1	1.83	364.93	331.60	335.03	341.93	362.09	411.23	309.33	322.60
The World Index (2452)	272.25	0.2	246.22	247.50	254.28	262.73	0.0	1.75	271.78	246.96	249.51	254.65	252.77	306.58	241.30	256.99

PLEASE NOTE: Amendment to indices 4/8/98 to 24/8/98 applied to World Ex Eurobloc, World Ex US, World Ex UK, World Ex Japan and the World Index. CONSTITUENT CHANGE WITH EFFECT 25/8/98: Deletion: Bank Dagang Nasional (Indonesia). Latest prices were unavailable for this edition.

Emerging markets: IFC investable indices

Dollar terms

Aug 24 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	736.82	+0.8	−34.7
Brazil	324.40	−1.5	−32.8
Chile	432.21	−1.4	−32.7
Colombia[1]	446.50	−2.6	−45.9
Mexico	447.84	+0.5	−43.2
Peru[2]	157.28	−1.4	−29.0
Venezuela[3]	302.68	+2.0	−68.9
East Asia			
China[4]	23.29	−2.1	−57.9
Korea[5]	25.28	−4.6	+6.1
Philippines	72.87	−5.1	−35.4
Taiwan, China[6]	107.87	−4.5	−23.7
South Asia			
India[7]	63.20	+1.7	−24.2
Indonesia[8]	14.58	−4.5	−56.7
Malaysia	44.84	−1.4	−50.8
Pakistan[9]	100.12	+5.2	−59.7
Sri Lanka[10]	86.75	−4.7	−42.6
Thailand	35.26	−3.2	−25.0
Europe/Mideast/Africa			
Czech Rep	48.19	+0.4	−11.9
Egypt	66.12	−2.7	−29.1
Greece	524.76	−3.0	+62.0
Hungary[11]	260.94	−7.8	−17.1
Israel	118.60	−3.3	−2.6
Jordan	239.11	+0.8	+13.2
Morocco	173.91	+0.7	+33.5
Poland[12]	581.51	+0.4	−2.6
Portugal	286.90	+0.2	+35.9
Russia	33.85	+5.4	−77.2
S Africa[13]	122.60	−1.2	−31.8
Slovakia	60.27	+0.6	−39.2
Turkey[14]	200.66	−2.4	−35.7
Zimbabwe[15]	174.16	−0.4	−30.6
Regions			
Composite	170.58	−1.5	−30.7
Latin America	421.21	−0.8	−37.8
Asia	72.57	−3.3	−32.6
EMEA	116.89	−1.5	−20.8
Europe	153.73	−1.8	−18.5
Emkts Europe	66.13	−1.3	−53.6
ME & Africa	54.98	−1.5	−23.3

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close August 25

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close	Chng
[illegible]	[illegible]	Xerox	1.44	1.4		9396	107	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Xio Corp			17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Yankee Egy	[illegible]	[illegible]	[illegible]	27	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	York Int	[illegible]	1.2	34	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zapata	[illegible]	[illegible]	4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenith Nat	1.00	4.0	15	115	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenix Inc x	[illegible]	11.2		154	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	ZweigFdA	1.24	10.6		422	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Tot x	[illegible]	[illegible]		960	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Aug 24	Aug 21	Aug 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8566.61	8533.65	8611.41	9337.97 (17/7)	7580.42 (9/1)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.19	105.24	105.13	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3087.24	3088.98†	3047.25	3686.02 (16/4)	2988.98 (21/8)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	284.22	282.88	280.93	286.43 (8/7)	262.66 (9/1)	286.43 (6/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 8600.66 (8600.34) Low 8452.28 (8397.80) (Theoretical)
Day's high 8618.19 (8606.06) Low 8502.76 (8328.20) (Actual)

Standard and Poors	Aug 24	Aug 21	Aug 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1088.14	1081.18	1091.60	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1288.73	1280.61	1290.81	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial‡	122.84	122.41†	124.77	147.89 (14/7)	110.65 (9/1)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	543.72	540.82	546.22	600.75 (17/7)	487.47 (9/1)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	649.32	651.88	660.60	753.87 (22/4)	648.41 (12/1)	753.87 (22/4/98)	524.20 (18/7/96)
NASDAQ Comp	1790.82	1797.81	1832.45	2014.25 (20/7)	1503.22 (9/1)	2014.25 (20/7/98)	54.87 (5/10/74)
Russell 2000	393.70	395.54	401.73	481.41 (21/4)	393.70 (24/8)	481.41 (21/4/98)	123.36 (7/12/83)

RATIOS

	Aug 21	Aug 14	Aug 7	Year ago
Dow Jones Ind. Div. Yield	1.44	1.75	1.71	1.66
	Aug 19	Aug 12	Aug 5	Year ago
S & P Ind. Div. yield	1.32	1.34	1.35	1.50
S & P Ind. P/E ratio	31.03	30.57	30.34	25.75

US DATA

MARKET ACTIVITY

Volume (million)	Aug 24	Aug 21	Aug 20
NYSE	583.820	725.758	621.630
Amex	21.470	35.948	25.946
NASDAQ	594.908	780.119	656.736

NYSE	Aug 24	Aug 21	Aug 20
Issues Traded	3,534	3,523	3,503
Rises	1,363	800	1,061
Falls	1,643	2,315	1,882
Unchanged	528	408	540
New Highs	33	22	34
New Lows	276	305	265

NYSE TRADING ACTIVITY

Volume : 583,820,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AmOnline	7,581,900	58⅝	+3⅝
Compaq	5,978,600	35½	
Monsanto	5,233,700	61⅞	+4⅜
PhMorr	4,855,700	44¼	+⅜
AT&T	4,805,800	57⅞	+1⅛
Tandy	4,532,100	54	−⅝
MicronTech	4,041,800	30	+⅛
PepsiCo	3,885,300	29¼	+1¼
Telebras	3,677,000	84	−1⅞
Pfizer	3,527,300	104⅞	−1½

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Allwaste	18⅝	+1⅜	+8.2
HK Tel ADR	20¼	+1⅜	+7.3
Nissan	61⅞	+4⅜	+7.3
Pine Creek	26¼	+1¾	+7.0
Downs			
Teppco Pie	27¼	−20⅞	−43.2
Titanx	19¼	−2⅛	−8.5
Vornir	10⅞	−⅞	−7.7
HiData	38⅛	−2¾	−7.1

NASDAQ TRADING ACTIVITY

Volume :594,908,000

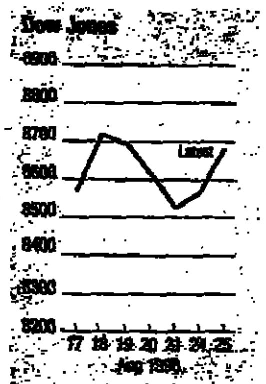
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Intel	20,926,900	84¼	−⅛
DellCmp	15,393,700	119⅝	+1¾
Cisco Cp	14,083,500	36⅛	+4⅛
Tellabs	12,518,500	55⅞	−4¼
CiscoSys	10,551,900	103	+⅛
WorldCm	8,898,300	57¼	−⅞
Micsft	6,454,500	110⅞	−⅝
Comcast	6,330,300	39⅞	+1⅞
AppleC	5,335,200	41⅞	−1⅞
3Com	5,300,400	30⅛	−⅞

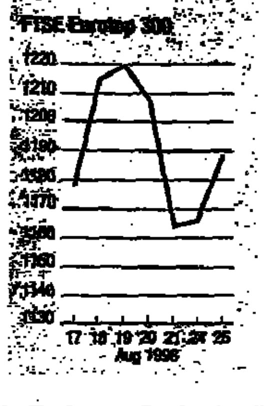
BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Spectek	13¼	+2¼	+20.8
Clarus Cp	36⅛	+4⅞	+15.6
Sunt Bind	38⅞	+3⅝	+10.6
TiConsLb	38¼	+3⅛	+8.7
Downs			
Sykland	15⅞	−2⅝	−14.3
Escore	12⅜	−1⅞	−13.4
Barnett	18¼	−2⅞	−13.4
Autdsk	24⅜	−3⅜	−12.1

Dow Jones



FTSE Eurotop 300



JAPAN

	Aug 25	Aug 24	Aug 21	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15072.93	14988.36	15298.20	17264.34	14664.44	38915.9	85.25

Day's high: 15228.97. Day's low: 15070.21.

TOKYO TRADING ACTIVITY

Volume : 380,000,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
LgTmCr	16,745,000	57	−3
SumTrB	3,578,000	393	−9
NpSti	9,087,000	238	−2
NKK	3,500,000	121	−1
BTokM	5,128,000	1148	−45
NEC	4,152,000	1000	+4
Sakura	3,908,000	283	
Hitachi	3,951,000	748	+4
IndBk	3,932,000	809	−1
Itochu	3,800,000	247	+1

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
DaiyTor	205	+24	+13.3
StockJ	60	+4	+7.1
MgOil	182	+12	+7.1
YamGo	238	+14	+6.2
Downs			
NpSnsp	377	−37	−8.9
KaiSnd	83	−7	−7.8
SumRlt	408	−34	−6.8
LgTmCr	57	−3	−5

FRANCE

	Aug 25	Aug 24	Aug 21	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4029.32	3937.43	3943.68	4388.48	2882.54	4388.48	894.61

Day's high: 4032.18 Day's low: 3879.56

PARIS TRADING ACTIVITY

Volume : 434,227,800

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
FrTele	2,105,564	480	+35.1
Elf Aqu	741,653	662	+7
BNP	562,414	428	−1
TotalB	587,499	637	−1
Axa	571,728	785	+13
Alcatel	373,387	1130	+48
Usinor	512,787	72	+2.35
RhnPl	467,556	308	+0.5
Vivendi	408,690	1231	+1
RhonPR	445,500	305.2	+2.6

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Labinal	1808	+153	+8.5
FrTele	480	+35.1	+7.7
Pinault	418.9	+27.8	+7.1
CrLyCI	595	+39	+7.0
Downs			
GpPart	400	−25	−5.9
Eramet	590	−25	−4.1
Dollfus	110	−3.8	−3.3
Side R	102.3	−3.5	−3.3

GERMANY

	Aug 25	Aug 24	Aug 21	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5371.76	5234.88	5163.51	6171.43	4087.28	6171.43	931.18

Day's high: 5389.58. Day's low: 5273.81.

FRANKFURT TRADING ACTIVITY

Volume : n/a

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Bayer	933,749	71.8	+1
Commerzbk	816,043	57.1	+2.5
Dt Bk	812,017	128.6	+4.8
Siemens	521,167	119.3	−0.35
Lufthan	438,187	47.3	+1.5
BASF	412,232	74.8	+1.7
DresdBk	388,857	88.2	+4.3
Dt Tel	388,843	50.6	+0.8
Daimlr	384,497	179.5	+4.5
Veba	325,390	92.95	+2.95

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Degussa	38.1	+2.7	+8.1
Hbmann	350	+19	+5.7
RWE Pf	64.3	+3.3	+5.4
DresdBk	88.2	+4.3	+5.1
Downs			
McbShO	530	−45	−7.8
Tyssen	41	−3	−6.8
Colbac	218	−15	−6.4
SchLub	320	−20	−5.9

UK

	Aug 25	Aug 24	Aug 21	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5854.4	5553.7	5477.0	6179.00	5088.80	6179	986.9

Day's high: 5855.6 Day's low: 5553.7

LONDON TRADING ACTIVITY

Volume : 703,700,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Shell	18,360,520	348¼	+8¼
Centrica	17,870,450	87¾	+½
BAT Inds	14,273,809	647½	+38½
Br Petroleum	12,888,910	829½	−1½
Emerald Eng	12,714,620	7	−½
Siebe	9,290,984	230	+12
Br Telecom	9,227,895	847	+22
BTR	8,658,300	150¼	+1
Tesco	8,127,431	188½	+2½
Vodafone	8,093,742	827	+4

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Sedgwick	213	+70½	+49.6
Avocet Mng	33½	+6	+21.8
Vymura	145	+21	+16.9
Phytopharm	144½	+15	+11.6
Downs			
Selector	4	−38½	−90.6
Dawson Int	16	−5½	−25.6
Cairn Energy	150½	−31	−18.2
Bullock	38	−5	−11.6

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	1086.30	1105.00	+11.80	1106.80	1092.30	118,080	362,508
Dec	1111.50	1165.00	+6.70	1119.00	1097.50	2,746	23,084
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Sep	15120.0	15070.0	+50.0	15220.0	15040.0	31,577	213,984
Dec	15060.0	14980.0	+40.0	15140.0	14980.0	6,453	28,718

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Aug	3985.0	4027.8	+86.0	4035.5	3979.0	106,703	147,252
Sep	3997.0	4037.5	+86.0	4048.0	3994.0	52,784	125,542
DAX							
Sep	5329.0	5415.0	+136.0	5420.0	5306.0	23,903	93,850
Dec	5341.0	5458.0	+142.0	5460.0	5341.0	106	3,261

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Aug	720.25	719.50	−7.50	723.00	711.50	43,629	85,066
Sep	722.75	721.00	−7.00	725.00	714.40	33,625	70,712
SOFFEX							
Aug	–	7594.7	–	–	–	–	8,910
Sep	7340.0	7380.0	+145.0	7438.9	7330.0	5,910	23,516

WORLD MARKETS AT A GLANCE

Country	Index	Aug 25	Aug 24	Aug 21	1998 High	1998 Low	♣ Yield	♣ P/E
Argentina	General	18474.97	16133.48	16053.75	23485.47 23/3	16053.75 21/8	3.93	13.40
Australia	All Ordinaries	2627.7	2601.8	2635.0	2881.40 16/4	2524.90 18/6	3.42	18.80
	All Mining	543.8	541.9	547.2	713.19 23/4	522.69 17/8		
Higher with global markets, while local currency and bonds weakened. AMP bid A$3bn for deal insurer GIO.								
Austria	Credit Aktien	(d)	443.31	450.40	584.34 28/5	437.44 13/1	1.74	13.40
	ATX Index	1307.17	1282.17	1298.31	1628.86 28/5	1245.69 13/1		
Market closed almost 2 per cent higher, led by technical rebound in heavyweights Bank Austria and oil group OMV.								
Belgium	BEL20	3393.90	3362.36	3383.70	3832.07 20/7	2387.78 10/1	1.68	21.30
Small correction after recent losses but dealers said there was lack of overall direction.								
Brazil	Bovespa	7853.0	7655.0	7764.0	12298.00 15/4	7655.00 24/8	na	na
Canada	TSE 100◆	387.13	382.12	385.34	475.63 25/5	380.03 12/1	1.85	20.00
	Metals Mins◆	2851.31	2835.85	2863.38	4380.81 10/3	2835.85 24/8		
	Composite◆	6320.40	6248.85†	6294.28	7822.30 22/4	6238.98 12/1		
	Portfolio§§	3211.98	3156.83†	3176.45	3985.81 25/5	3180.83 24/8		
Chile	IGPA Gen♥	3573.03	3565.55	3597.51	4981.85 17/3	3565.55 24/8	3.85	11.30
China	Shanghai B	28.88	28.80	29.21	59.58 10/2	28.25 12/8	1.43	28.80
	Shenzhen B	56.70	55.36	55.34	98.97 10/2	48.88 13/8		
Hard-currency shares were generally firmer in thin volumes.								
Colombia	IBB	(d)	873.52	998.73	1431.46 7/1	873.52 24/8	na	na
Czech Republic	PX 50	437.4	436.3	441.1	517.30 23/3	432.30 16/6	na	na
Denmark	CopenhagenSE	(d)	665.11	857.55	778.84 7/4	659.49 13/8	1.53	18.10
Shares closed 3.6 per cent higher, following other European markets up.								
Egypt	Cairo SE Gen	(d)	353.20	(c)	393.19 21/4	346.40 2/2	na	na
Finland	HEX General	4878.63	4782.44	4772.96	5803.43 21/7	3220.43 12/1	2.11	15.60
Shares added 2 per cent, helped by gains in US and European stocks, but volumes were low.								
France	SBF 250	2570.03	2516.20	2527.84	2799.73 17/7	1873.18 12/1	2.37	18.50
	CAC 40	4029.32	3937.43	3943.68	4388.48 17/7	2882.54 12/1		
Sharp gains in some safe-haven stocks helped CAC-40 back over 4,000 but brokers said bearish sentiments remained strong.								
Germany	FAZ Aktien	1668.31	1629.47	1668.69	1949.88 20/7	1334.35 12/1	1.40	21.90
	Commerzbank	4998.5	4815.0	4937.0	5712.80 20/7	3928.29 12/1		
	DAX‡	5371.76	5234.88	5163.51	6171.43 20/7	4087.28 12/1		
Shares made strong gains, with early advance on Wall St underpinning sentiment.								
Greece	Athens SE	2479.05	2572.29	2638.14	2806.82 21/7	1380.33 29/1	1.88	19.90
	FTSE/ASE 20	1503.58	1570.01	1614.88	1727.13 21/7	788.18 29/1		
Stocks succumbed to a sell-off after low interest in a tender for a majority stake in Ionian Bank.								
Hong Kong	Hang Seng	7890.08	7845.48	7527.81	11810.83 25/3	6660.42 13/8	5.42	8.00
	HSCC Red Chip	821.77	814.18	829.44	1226.09 27/2	683.93 18/8		
Late buying, believed to be by the government, pushed shares forward on solid volume of HK$9.92bn. Intelbank rates rose.								
Hungary	Bux	6770.48	6718.78	(c)	9816.38 23/4	6713.78 24/8	na	na
Shares staged weak recovery, partially correcting their 8 per cent slide on Monday.								
India	BSE Sens.	2893.38	2950.44	2922.61	4280.86 21/4	2867.38 18/8		
	Crisil 500	808.11	591.82	588.86	915.82 21/4	573.82 18/8	na	na
Indonesia	Jakarta Comp.	367.14	370.55	388.35	554.10 2/2	342.97 9/1	2.63	14.30
Dual-listed Telkom and Indosat hurt by arbitrage selling as the rupiah continued its rebound. Falls doubled rises.								
Ireland	ISEQ Overall	4774.08	4743.35	4754.27	5471.81 21/4	4464.76 2/1	2.02	18.50
Shares rose cautiously as half-year results from Irish Permanent boosted some financials but market still mainly bearish.								
Israel	Tel Aviv 100	308.44	308.40	(c)	337.43 8/6	283.12 11/2	na	na
Italy	BCI Comit 30	354.73	345.06	343.34	388.80 20/7	254.84 2/1	1.75	25.20
	Banca Com Ital	1471.33	1441.51	1459.48	1654.36 7/4	1072.35 2/1		
	Mibtel General	23803.0	23034.0	22887.9	28377.00 6/4	17208.00 2/1		
Bourse ended at session highs in a technical rebound with other exchanges, boosted by Dow rally.								
Japan	Nikkei 225	15072.93	14988.36	15298.20	17264.34 2/3	14664.44 12/1	0.97	39.70
	Nikkei 300	227.60	228.83	230.82	257.43 10/2	224.65 12/1		
	Topix	1162.58	1158.30	1176.51	1300.38 10/2	1120.81 12/1		
	2nd Section	1272.77	1273.74	1283.85	1401.27 12/2	1173.76 14/1		
Market gains on back of overnight yen strength. Rises beat falls by 3 to 2 but banks sector lost ground.								
Jordan	Amman SE	182.55	183.54	(c)	184.52 17/8	164.84 30/1	na	na
Malaysia	KLSE Comp.	324.17	317.20	324.06	745.36 27/2	315.66 18/8	4.90	7.80
Bounced with Tokyo as investors awaited Q2 GDP figures on Friday. Rises beat falls 5 to 3, but volume thin at M$125m.								
Mexico	IPC	3420.26	3413.01	3413.15	5284.00 2/1	3403.81 24/8	1.76	9.90
Morocco	CASA	888.23	867.05	865.00	988.23 25/8	886.57 21/1	na	na
Netherlands	CBS TtlRtnGen	1328.3	1287.5	1316.3	1488.00 20/7	1046.20 12/1	2.04	22.00
	CBS All Shr	748.3	733.1	743.7	846.19 20/7	588.20 12/1		
Heavyweights such as financial sector led market higher as early strength, inspired by Asian gains, boosted by Wall St.								
New Zealand	Cap. 40	1943.70	1955.78	2001.50	2388.02 20/3	1943.72 13/8	5.03	17.30
Telecom led market lower with weaker bonds. Volume was a thin NZ$58.5m.								
Nigeria	SE All-Share	5805.98	5804.58	5815.37	6884.87 11/2	2298.40 12/1	na	na
Norway	Oslo SE Ind	1888.60	1851.55	1807.53	2370.98 4/5	1807.53 21/8	1.92	13.58
Bourse rose strongly, with exporters helped by a plunge in the krone.								
Pakistan	Karachi SE	980.52	999.77	956.09	1746.31 2/1	765.73 14/7	na	na
Hub Power slid 10.9 per cent on news it had switched off two generators because of fuel shortages.								
Peru	Lima Gen	1432.90	1414.50	1454.70	1908.91 4/5	1414.50 24/8	na	na
Philippines	Manila Comp.	1310.19	1323.11	1372.60	2311.42 25/3	1303.29 13/8	2.01	9.80
San Miguel slipped ahead of news that Hong Kong's First Pacific had sold its entire holding. Falls doubled rises.								
Poland	WIG	14190.7	14123.0	14264.3	18582.70 11/3	13228.80 12/1	2.98	4.50
Bourse inched up after a three-session fall on latest turn in Russian crisis. Analysts saw little upside potential.								
Portugal	BVL 30	5280.40	5200.07	5226.12	8176.89 22/4	3828.27 2/1	1.92	29.40
	PSI 20	11868.09	11781.86	11851.60	14282.89 22/4	8831.84 2/1		
Russia	RTS	88.50	86.40	(d)	411.81 5/1	86.49 24/8	na	na
Shares made strong gains as rouble stabilised its largest one-day drop for four years. Gazprom maintained sharp rises.								
Singapore	SES All-S'pore	275.21	272.97	277.76	437.98 19/3	272.97 24/8	3.27	12.30
	Straits Times	911.32	917.31	933.16	1698.75 19/3	911.32 25/8		
Falls in NatSteel and Cycle & Carriage pulled STI index lower while SingTel rise helped to lift the SES weighted index.								
Slovakia	SAX	114.41	113.66	113.82	182.48 5/1	107.08 1/7	na	na
South Africa	JSE All Share	5897.6♥	6035.1†	6039.2	8358.70 20/4	5898.00 12/1		
	JSE Gold	838.9♥	862.5	878.0	1182.70 6/7	672.80 18/3		
	JSE Indl.	6887.3♥	6887.8	7003.5	9842.70 20/4	6715.10 12/1	3.72	9.90
Stocks closed lower in dull trade but new listing Legacy Venture bucked the trend.								
South Korea	KoreaCompEx**	310.23	305.15	316.62	574.36 2/3	280.00 16/6	1.85	14.20
Inspired higher by Wall Street gains and yen's strength. Rises beat falls by over 5 to 3.								
Spain	Madrid SE	836.10	820.29	833.95	947.82 17/7	645.14 12/1	1.89	23.00
Stocks closed higher but below day's peaks as Wall Street's gains encouraged buyers to return.								
Sri Lanka	CSE All Share	505.20	518.24	533.08	788.78 4/5	505.20 25/8	na	na
Foreign selling of blue chips pushed shares to fresh 7-year low.								
Sweden	AffarsvaldsGen	3478.8	3456.4	3496.8	3865.80 20/7	2853.10 12/1	2.10	20.60
Shares closed higher, firming as the debt market weakened substantially and interest rates rose.								
Switzerland	SMI Index	7389.5	7257.7	7303.8	8412.00 21/7	6082.10 12/1	1.25	23.60
	SPI General	4635.85	4582.00	4638.55	5237.38 20/7	3781.38 12/1	na	na
Gains in UBS and Credit Suisse Group supported the market, which closed higher in a technical rebound.								
Taiwan	WeightedPr.**	6908.33	6957.75	7213.37	9277.09 2/3	6908.33 25/8	1.54	17.70
Late buying pulled shares back from intra-day losses of 2.1 per cent. Electronics finished up 0.3 per cent.								
Thailand	Bangkok SET	230.22	233.15	238.92	558.92 3/2	230.22 25/8	5.05	36.00
Broadly lower in thin trade of 1.23bn baht.								
Turkey	IMKB Nat 100	3253.24	3292.75	3372.29	4530.99 16/7	2777.08 10/2	3.65	12.30
Venezuela	IBC	3271.37	3172.58‡	3158.76	7659.92 23/3	3108.76 21/8	na	na
Zimbabwe	ZSE Industrial	(d)	6280.98	6466.72	9795.71 31/3	6427.32 7/8	na	na
WORLD	FT/S&P World($)	(d)	272.25	271.54	305.82 17/7	243.98 9/1	na	na
	MS Capital Intl$	1035.7*	1022.5	1018.0	1143.80 20/7	988.80 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	3294.70	3219.66	3213.72	3670.82 20/7	2574.51 12/1		
	DJ Euro Stx 50	3282.91	3202.96	3209.05	3658.48 17/7	2486.81 12/1		
	FTSE E300	1190.30	1166.29	1163.51	1327.86 20/7	971.93 12/1		
	FTSE E100	2744.87	2690.99	2681.87	3086.91 20/7	2236.40 12/1	na	na
	HSBC Drgn	(d)	164.05	163.13	273.91 26/3	162.78 7/8	na	na
	MS Emgs Emrg	102.07	102.18	105.01	188.06 22/4	102.78 24/8	na	na

** Sat Aug 22: Taiwan Weighted Price (a); Korea Comp Ex 305.38. Montreal. ◆ Toronto. (c) Closed. (d) Unavailable. ‡ XETRA-DAX after-hours index: Aug 25: 5487.03 +150.65. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ♣ Yields and P/E ratios are based on Datastream Total Market Indices. ♣ Midsession.

THE NASDAQ STOCK MARKET

4 pm close August 25

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THE NASDAQ STOCK MARKET

Stock	Div.	P/E	Vol 100s	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMEX PRICES

4 pm close August 25

Stock	Div.	P/E	Vol 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EASDAQ

The EASDAQ All Share Index (EASI) for 25th August: 904.42 down 1.13% Day's high: 1238.22 Day's low: 886.86

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low
4Front Technologies	US$8.5	-0.25	0	11.5	8.5
ActivCard	US$4.375		2500	6.375	2.25
Algol	ITL35000		150	44250	13250
Artwork Systems	US$15.375	-0.25	57800	21.125	5.875
Baltimore Corp.	US$4.0625		16000	4.1875	3.8125
Chemunex◆	FFr14		0	22.5	9.5
City Bird Holding	US$7.125	+0.0625	300	10.3125	6.375
Dialog Holdings	GBP7.35		18000	7.1	1.25
EDAP TMS	US$3.6875	+0.9375	0	8.125	2.75
EPID	DEM10.125	+0.125	15300	10.875	9.875
ESAT Telecom	US$35.5	-0.25	840	43.75	13.5
Espace Prod. Int.	FFr116.38	+0.05	5000	121.25	89.3
Esprit Telecom	US$27.625	-0.375	400	46.625	4.875
Eybl International	Sch480	-15	5049	650	480
F.I.V. Fund	US$17	-0.25	27958	22.25	17
Global Graphics	FFr214.5		15865	238.5	190
Global TeleSystems	US$43.125	-1.25	410	62.375	25.75
Grainger Telecom	US$17.125	-0.125	230	27.25	14.688
Gruppo Formula	ITL34000	-250	1450	65500	14250

Company	Mid price	Change on day	Volume	High	Low
ICOS Vision Syst	US$17.75		1650	30.875	15.625
Innogenetics	US$50.25		24010	74	9.875
Integr. Surg. Syst.◆	DEM7.9		0	12.2	7.1
Lernout & Hauspie	US$45.375	-0.625	38840	65.25	13.125
Memorex	US$10	-0.1875	170570	20.1875	7.375
Mercer Int'l◆	US$8.5	-0.25	0	12.875	8.125
NTL	US$47	+0.375	418	73.75	30.5
Opsion Int'l	US$45.375	-0.875	8518	67.5	10.38
Orthovita Inc.	US$11.5		6600	11.625	10.5
Paulo Racing Syst.	Sch4720	-18	816	5150	3700
Pharming	NLG78.75	-0.75	38688	30.5	20.75
Puratech◆	US$5		6700	7.625	2.125
Royal Olympic	US$6.125		400	18.5	6
SCT Syst Integrat.	Sch1975	-1.769	23036	4155	1975
Schoeller-Bleckmann◆	Sch1170	-15	1050	1795	954
TelDaFax	DEM83.5	+2	75	84.5	81
Topcall Int'l◆	Sch3957	-80	2445	5045	822
Xeikon Technol.◆	US$7.05	+0.27	1000	16.63	2.1

Prices for 25/08/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: http://www.easdaq.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9490). Annual/Interim reports can be obtained for companies with a ◆ symbol in this issue. Annual Reports Club telephone +44 181 770 0770. For further details please see Share Price pages.

STOCK MARKETS

Bourses rally as buyers seize their chance

WORLD OVERVIEW

Global equity markets made yet another attempt at a rally yesterday, as investors decided that the recent sharp falls in share prices offered a buying opportunity, *writes Philip Coggan.*

There was not much in the way of encouraging economic or political news to explain the rebound. Russia appeared no nearer to solving its problems: the rouble declined 9.4 per cent, dropping from 7.14 to 7.88 to the dollar, despite the commitment of the reappointed prime minister, Viktor Chernomyrdin, to defend the currency. And there was still no news on the terms for the restructuring of Russia's debt.

Meanwhile, three Russian banks – Uneximbank, Menatep and Most Bank – agreed to merge. The stability of the financial system has been consistently queried since the effective devaluation.

However, on the plus side, outside Russia there was not much in the way of bad news for the markets to contemplate either.

Latin America may be the next potential trouble spot in the minds of many global investors, but yesterday the Venezuelan bolivar, the target of devaluation speculation late last week, opened firmer with the help of higher money market rates.

Perhaps all investors needed was a fairly quiet day to persuade them to start buying shares again, especially as recent falls in bond yields have made equities look more attractive relative to the rival asset class.

Bonds were on the march yesterday, with the yield on the benchmark 10 year German government bund falling to yet another historic low.

Asian equities started the ball rolling yesterday with most bourses modestly higher, including Tokyo and Hong Kong, although Taipei fell to a 20-month low.

Europe rallied significantly with Frankfurt regaining more of the ground lost during its 5.4 per cent decline on Friday.

Athens was an exception, falling 3.6 per cent after some disappointing tender offers for Ionian Bank. Ionian's parent company, Commercial Bank, said that the tender would be cancelled and held again in three months.

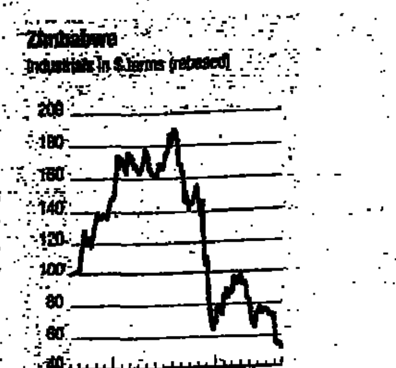
Wall Street continued the rally which started when the Dow Jones Industrial Average trimmed its losses in late Friday trading. The Dow quickly gained 100 points yesterday.

It looks as if the Dow has found a floor at a level about 10 per cent below the all-time high of 9,367, recorded in mid-July, with US investors still willing to "buy on the dips". It rallied from around that level on August 11 and August 21.

EMERGING MARKET FOCUS

No end in sight to Harare slide

Zimbabwe
Industrials in S.terms (rebased)



Source: Datastream/ICV

Investors in Zimbabwe are bracing themselves for more pain as the equity market continues a slide that has seen it decline by 70 per cent in the last year.

Yesterday, the industrial index posted its second consecutive 100-point loss as foreign investors baled out. It closed 138.67 or 2.21 per cent down at 6,142.01. A sharp fall in conglomerate Delta Corporation, which accounts for more than a quarter of the 69-share index, contributed to Monday's decline.

Dropping commodity prices, a compensation package for war veterans, a land redistribution programme and political uncertainity have all weighed on the market and analysts expect the decline to continue.

Christopher Hartland-Peel, Africa specialist at Standard Bank, said: "The bear market is one year old and, typically, these things tend to last two years."

Having hit an all-time high of 12,081 in August 1997, the last 12 months have seen market capitalisation decline from $5bn to around $1.5bn.

The slide, and the collapse of the currency, which has led to an effective devaluation of around 45 per cent in dollar terms, was triggered by the government's plan for a Z$4bn compensation package for war veterans which *economists and donors said* it could not afford.

In November, the government confirmed plans to acquire nearly 1,500 mainly white-owned farms as a means of redistributing land, threatening a sector that is a substantial contributor to exports.

The government has since reduced the number of farms for compulsory purchase, but villagers and peasant farmers have taken matters into their own hands and moved onto some of the properties.

Farmers have also been hit by a fall in commodity prices, especially tobacco, down 30 per cent this year, while prices have also fallen for gold and other minerals.

Although companies have continued to report favourable results, many now expect that to change as the slow South African economy and weak rand hits exporters and rising interest rates, now about 35 per cent, make borrowings more expensive.

Analysts say that weakening economic fundamentals, including increasing inflation, have contributed to a poor environment for investment. "This is a market that is looking so cheap that one should be investing, but the climate is just not right," said an analyst.

But one of the biggest reasons for the decline has been the loss of confidence in the government's ability to manage the economy and the country as a whole.

"What we have here is a confidence crisis with the government failing to manage the economy. The government is playing too many lobbies to have an effective and clear-cut policy," said a London-based fund manager.

He added: "You only need to look at other countries in the region such as Botswana and Mauritius to see what good management can do for an economy."

Joel Kibazo

Dow rushes higher with 100-point gain

AMERICAS

US shares roared back in morning trade, as yields in the Treasury market remained near historic lows and rising European stocks set the stage for a 100-point rise in the Dow Jones Industrial Average, *writes John Labate in New York.*

"The real factor here is domestic interest rates," said Dan Matthison, head stock trader at D.E. Shaw Securities in New York. Turmoil in the Russian market last week helped push the yield on the 30-year Treasury bond, *the standard for* long-term interest rates, well below the 5.5 per cent level. Since then, Treasury yields have remained in a tight trading range.

After a series of choppy sessions, investment money flowed into many sectors considered oversold. "The market was down and there is bargain-hunting going on now, but it is tempered by concerns in overseas markets," said James Weiss, deputy chief investment officer of equities at State Street Research in Boston.

The result, said Mr Weiss, is that investor money is focused on two broad segments. The favourable interest rate environment has caused financial stocks to rebound, and investors are also buying high-visibility large-cap companies, especially those in the consumer, technology and pharmaceutical industries, with overseas exposure limited to Europe.

By early afternoon the Dow was off its earlier highs, but still ahead by 79.81 to *8,646.42. The broader Standard & Poor's* 500 gained 1.3 per cent or 13.93 to 1,102.07.

The Nasdaq composite, which is weighted in technology issues, rose 20.81 to 1,811.63 while the small-cap Russell 2000 was up 2.12 to 395.82.

Among Dow member stocks, J.P. Morgan gained $3 3/16 to $122 7/16 and Travelers was up $1¾ to $55¾.

Dell Computer was up $3¾ to $123, as the stock continued to gain ground following last week's earnings report. The company said yesterday it would open a manufacturing centre in Brazil.

Sunbeam also pushed higher, up $1/16 to $8 11/16, on *recently announced* reorganisation plans.

Retail stocks were strong gainers, but Gap slipped $1 11/16 to $64⅛ after PaineWebber downgraded the stock to an "attractive" rating.

TORONTO traded more than 1 per cent higher at midsession, deriving confidence from Wall Street and the performance of west European markets as concerns over Russia's financial crisis took a back seat.

The 300 composite index was 77.62 higher by midday at 6,326.47 in volume of 45.3m shares.

The banking sector staged a 1.9 per cent advance after taking investors on a roller-coaster ride in recent weeks, including a 2.5 per cent tumble in the previous session.

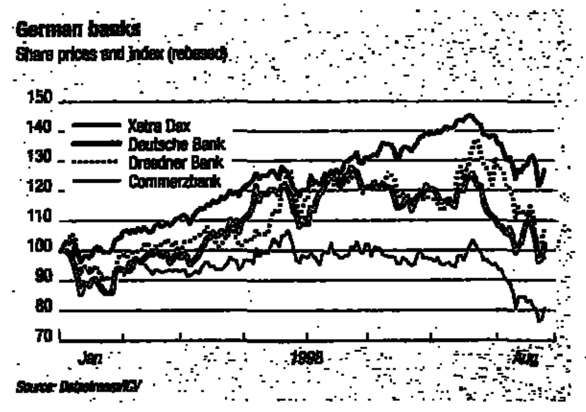
Bank of Montreal propped the sector up with a rise of C$1.15 to C$62.55 after posting third-quarter earnings of C$1.31, unchanged from last year. Bank of Nova Scotia ended C$1.05 higher at C$30.25, slightly exceeding analysts expectations with *earnings of 68 cents a share,* compared with 76 cents a year earlier.

Frankfurt focuses on banks

EUROPE

The early gains on Wall Street enabled **FRANKFURT** to look beyond continuing worries over Russia and Asia and the Xetra Dax index pulled strongly ahead to close 153.65 or 2.9 per cent higher at 5,407.03.

German banks
Share prices and index (rebased)



Source: Datastream/ICV

The big three banks were at the centre of attention, recouping some of the ground lost in recent sessions as a result of their exposure to Russia where they have outstanding loans of $30bn (£18bn).

Dresdner Bank jumped DM5.75 to DM91.25 as Goldman Sachs upgraded the stock to its European recommended list, saying that the recent battering of the bank's shares, because of the Asian crisis, had been overdone.

Deutsche Bank put on DM4.10 to DM129.50 and Commerzbank collected DM2.19 to DM57.01.

PARIS regained the 4,000 point level on the CAC 40 index with a 7.7 per cent in France Telecom alone accounting for half of the rise. The blue-chip index rose 91.89 or 2.3 per cent to 4,029.32.

France Telecom surged FFr35.10 to a year's closing high of FFr490, benefiting from what one analyst saw as safe-haven status among equities, with no exposure to Asian markets and a solid balance sheet.

Cap Gemini, another stock with nil exposure to Asia, pressed up to a new year peak of SFr1,017, before closing FFr51 higher at FFr1,010.

Other defensive stocks were big winners. Eridania Beghin-Say put on FFr33 to FFr1,144, Pinault-Printemps-Redoute rose FFr41 to FFr971, Sodexho Alliance gained FFr57 to FFr1,049 and Promodes jumped FFr181 to FFr3,910.

Banks, strong elsewhere in Europe, were underperformers. BNP gave up FFr1 to FFr439.

AMSTERDAM jumped 2.4 per cent, more than recovering from Monday's losses, led higher by rebounds in financials and stocks with an Asian flavour that had been among the biggest recent losers. The AEX index climbed 26.85 to 1,163.17.

ING gave a lead among the financials, jumping Fl4.40 to Fl136.40, as growing expectations *for tomorrow's* first-half figures provided additional impetus.

Vedior, the employment and cleaning group, put on Fl2 at Fl63 on news of a 22 per cent rise in first-half net profits and a forecast of a strong rise in net income for the whole year.

Against the trend, Ahold gave up Fl1.50 to Fl57 in the wake of Monday's announcement that the supermarkets group planned to issue Fl4bn of new shares to finance its purchase of Giant Food Inc.

An even worse performance came from Cateco, which tumbled Fl5 or 7.7 per cent to Fl50 after the consumer goods retailer announced a fall in first-half net income and forecast a substantial drop in activities from ordinary activities for the full year.

ZURICH staged a technical rebound after Monday's losses, led by strong gains in the big two banks. The SMI index put on 131.8 or 1.8 per cent to 7,389.5.

UBS shot up SFr18 or 3.5 per cent to SFr537 as it beat market expectations with news that net profit, excluding special factors rose by 5 per cent in the first half. The bank said it had book losses of SFr180m on Russian securities to date.

The upbeat mood spilled over to CS Group, which reports first-half results next month, and the shares rose SFr6 to SFr299.

Novartis, expected to report tomorrow a 11-15 per cent rise in first-half net *profits, rose SFr41 to* SFr2,436. Roche certificates gained SFr185 to SFr15,610.

High-tech stocks, however, were out of favour. Esec tumbled SFr200 to SFr1,000 in the wake of Monday's profits warning from the microchip equipment company and news of a planned restructuring.

This took the shares back to their four-year-old issue price and compared with the SFr5,600 at which they were trading in June 1996.

MADRID fulfilled expectations set early in the day; by the close the general index pulled back from the losses of the previous two sessions and finished 15.81 or 1.93 per cent higher at 836.10.

Analysts noted that the market was given a mild fillip by early strength on Wall Street and a sense that the falls of recent days, partly attributed to downgrades in the value of Latin American interests, were overdone.

Two of the biggest recent fallers – Banco Santander and BBV – made early gains though Santander again ended lower, Pta65 down at Pta3,205, while BBV closed 1.1 per cent up at Pta2,330.

MILAN also improved, opening more than 1 per cent higher and extending that to 2.5 per cent at the end of trading, with the Mibtel index registering a rise of 567 to 23,603.

ATHENS succumbed to a sell-off on disappointment *that the tender for a majority* stake in Ionian Bank had failed to live up to the market's high expectations. The general index finished 93.24 or 3.6 per cent down at 2,479.05, having recovered from an early low of 2,405.86.

The banking sector was hard hit, losing 5.5 per cent, with several issues quoted ask-only with no buyers throughout the session. Ionian Bank and Commercial Bank both fell 8 per cent.

Written and edited by Michael Morgan, Gary Mead, Peter Hall and Paul Grogan.

Buenos Aires recovers

Latin American bourses rallied at midsession as gains in North America and Europe brought out bargain hunters in regional markets.

BUENOS AIRES led the advance with a rise of 4.8 per cent in early afternoon trade after the bolsa hit a 34-month low last week. The Merval index was 19.78 higher at 428.85.

SAO PAULO climbed 3.3 per cent, helped by government measures announced on Monday aimed at retaining dollar investments in the country. The Bovespa index registered a rise of 253 at 7,909.

CARACAS was 2.6 per cent ahead at midsession as investors jumped back into the market on the view that a currency devaluation might not hurt the economy as much as originally thought. The IBC index rose 82.26 to 3,266.68.

MEXICO CITY also edged ahead with the IPC index up 0 16.86 at 3,429.87.

New price data hit Jo'burg

SOUTH AFRICA

Johannesburg suffered a roller-coaster ride before closing 2.3 per cent lower after the exchange adjusted Monday's closing figures. Higher-than-expected consumer price index data was also responsible for a spate of selling in a weak market.

The overall index lost 137.5 to 5,897.6 while industrials eased 0.3 per cent at 6,867.3 and financials tumbled 6.4 per cent to 9,850.9.

The weaker bullion price took the shine off gold shares, sending the index down 3.7 per cent to 838.9.

Nikkei edges back above 15,000

ASIA PACIFIC

Gains in other stock markets gave a lead to **TOKYO** which rebounded yesterday after *the big losses of Monday on* concerns about financial stability in Latin America and Russia, *writes Alexandra Harney.*

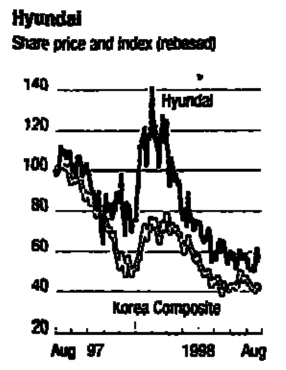
The Nikkei 225 average climbed 84.57 to 15,072.93, after moving between 15,070.23 and 15,226.97.

The Topix index of first-section issues gained 4.28 to 1,162.58. Advancers outnumbered decliners, 644 to 435, with 195 stocks unchanged.

The banking sector and major industrials remained the centre of attention. The Long Term Credit Bank of Japan, which is at the heart of a government debate about the financial system, fell Y3 to Y57 and was the most heavily traded share. Bank of Tokyo-Mitsubishi, believed to have heavy exposure to Latin America, plunged Y45 to Y1,146. Sumitomo tumbled Y9 to Y1,176, but Sanwa Bank gained Y2 to Y967.

Blue-chip stocks and industrial materials companies were mixed. Hitachi, the electronics group, closed up Y4 *to Y749. NEC, the* computer and electronics

Hyundai
Share price and index (rebased)



Source: Datastream/ICV

maker, gained Y4 to Y1,090. Nippon Steel, the world's largest steel maker which has gained in recent weeks, lost Y2 to Y238.

Mitsubishi Electric improved Y7 to Y277 after it was reported that the group would jointly develop *defence-related electronics* with Lockheed Martin, the US defence and aerospace giant.

In Osaka, the OSE average moved up 69 to 16,146.

HONG KONG reversed losses in a late rally, boosted by government buying, which left the Hang Seng index 44.61 higher at 7,890.09. *The rally was, however,* dampened by a pull-back in HSBC, which fell HK$5.50 to HK$172.50, shaving 71.71 points off the index.

KUALA LUMPUR staged a technical rebound as Japan's *stronger finish fuelled late* buying by investors who decided that Monday's fall had been overdone. The composite index closed 6.97 or 2.2 per cent higher at 324.17.

Against the trend, Maybank lost 16 cents to M$3.04 as investors braced themselves for news of sharply lower full-year earnings after the market closed. In the event, sharply higher provisions for losses on bad loans resulted in a fall in net profits to M$129.6m, far below even the most pessimistic expectations.

SYDNEY received a boost from a A$3bn takeover bid for insurer GIO, and the All Ordinaries index closed up 25.90 to 2,627.70.

The bid by insurance and banking group AMP for GIO underpinned the market while sending insurance shares higher. GIO jumped A$1.15 or 28 per cent to A$5.22, but AMP lost 19 cents to A$21.69.

QBE Insurance rose 41.2 cents to A$6.052, Colonial 14 cents to A$5.22 and National *Mutual added 12 cents to* A$2.78. MMI Insurance, however, bucked the trend, plunging 43 cents or 22 per cent to A$1.47 following news of an A$119.2m loss for the year to June.

*SEOUL rose on futures-*related demand for blue chips as signs of stability in the yen and overseas markets gave a boost to confidence. The composite index rose 5.08 to 310.23.

Hyundai Motor put on Won700 to Won14,400 as employees returned to work after occupying the plant during a month-long strike.

KARACHI was hit by news that blue chip Hub Power had switched off two of its generators because of fuel shortages, which raised the prospect of another row between the company and the government.

The KSE-100 index fell 18.25 to 980.52 as Hubco lost Rs1.35 to Rs13.75.

BANGKOK gave ground, with investors still unnerved about the outlook for emerging markets. The SET index lost 2.93 to 230.22.

Analysts said that details of the country's fifth letter of intent to the IMF, approved by the cabinet during the afternoon, had a limited impact as much of the detail *had already been taken into* account by investors.